

File Serial Charge Out
FD-5 (Rev. 6-17-70)

File _____ Class. _____ Case No. _____ Last Serial _____ Date _____

☐ Pending ☐ Closed

Serial No. _____ Description of Serial _____ Date Charged _____

~~871~~ DAILY NEWS 11-13-89 5-16-90

JEACIT
Employee

RECHARGE

Date: _____

To _____ From _____

Initials of Clerk {

Date {

Employee

Date charged

Location

Memorandum



To : SAC, LOS ANGELES (58C-PX-41605) (SARA) (P) Date 12/6/91

From : SA [REDACTED]

b6
b7C

Subject: ALLEGATIONS CONCERNING
UNITED STATES SENATOR ALAN CRANSTON, ET AL;
Corruption of Federal Public Officials - Legislative;
OO: PX/LA

In view of Case Agent [REDACTED] resignation, it is recommended that this matter be reassigned to Special Agent [REDACTED]. All investigation in this matter has been completed, and the new case agent need only coordinate with Phoenix Case Agent [REDACTED] to obtain formal declination from the United States Attorney's office, and complete the necessary closing LHM.

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JAJ/jff
(2)

FLOATING SERIAL

Amz

Recd

SA

12/31/91
NDE

58C-PX-41605

b6
b7C

NDE

Memorandum



To : SAC, LOS ANGELES (58C-PX-41605) (P)
(WCC-4/SARA)

Date 1/8/90

From : JAJ SA

b6
b7c

Subject: ALLEGATIONS INVOLVING U.S. SENATORS
ALAN CRANSTON, ETAL
CORRUPTION OF FEDERAL PUBLIC OFFICIALS -
LEGISLATIVE;
OO: Phoenix/Los Angeles

The allegations in this case have generated numerous newspaper articles. Therefore, it is requested that a separate subfile be opened to collect and hold these newspaper articles.

JAJ/amk
(2)

- 1* -

Saf
1-23-90
1/10/90
O&A
Sub
file
[Signature]

58C-PX-41605-Sub-A
Saf *Saf*

58C-PX-41605-1X1

SEARCHED	INDEX
SERIALIZED <i>KM</i>	FILED <i>KM</i>
JAN 2	
FBI — LOS ANGELES	

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(Mount Clipping in Space Below)

Lobby wants probe of thrift contributions to Cranston

By Tupper Hull
Herald Examiner staff writer

SACRAMENTO — Common Cause, the self-styled citizens' lobby, yesterday asked the U.S. Senate Ethics Committee and the U.S. Department of Justice to investigate Sen. Alan Cranston and four of his colleagues who helped a now-defunct thrift that gave them large campaign contributions.

The probe request is the latest development in a growing controversy involving the failed Lincoln Savings and Loan Association of Irvine that many California political observers believe represents the greatest threat to Cranston's

political future since he was first elected to the Senate in 1968.

The veteran Democrat received \$39,000 in 1986 for his re-election campaign from Charles H. Keating Jr., an Arizona millionaire who owns Lincoln savings and loan.

Keating, widely known in Arizona for his Republican politics, and several of his business associates also gave \$850,000 to three California Democratic voter registration projects in 1986, including one run by Cranston's son, Kim.

Cranston and Sens. Dennis DeConcini, D-Arizona; John Glenn, D-Ohio; John McCain, R-Arizona; and Donald Riegle, D-

Michigan; all intervened with federal regulators in April 1987 to urge them to bring to an end a lengthy probe of Keating's financial empire. In April of this year, Lincoln was seized by federal regulators, and Keating was charged with defrauding depositors of \$1.1 billion.

Bank officials say taxpayers may end up paying in excess of \$2 billion to cover the losses incurred by Lincoln's depositors, making it their costliest savings and loan bailout in history.

In Washington, D.C., Common Cause President Fred Wertheimer yesterday told the Associated Press the Senate Ethics Committee should appoint a special prosecutor to find out whether Cranston and his four colleagues violated conflict of interest rules through their intervention on Lincoln's behalf.

Wertheimer also said the Justice Department should investigate possible violations of laws by the senators.

(Indicate page, name of newspaper, city and state.)

Date: LOS ANGELES HERALD
Edition: EXAMINER
SAT., OCT. 14, 1989
FRONT SECTION, PAGE 1

Title: LOBBY WANTS PROBE OF THRIFT CONTRIBUTIONS TO CRANSTON

Character:
or
Classification:
Submitting Office:
LOS ANGELES

Indexing:



Cranston said in a prepared statement, "I did not violate any ethics rules or standards."

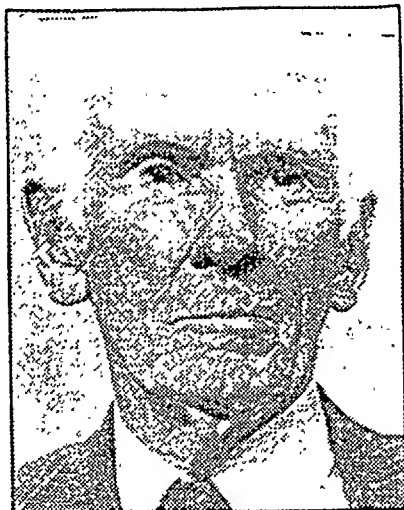
Cranston said he agreed to help Keating because a federal probe of the thrift had dragged on for two years, making it the longest investigation in the history of the Federal Home Loan Bank Board's history, with no apparent end in sight.

"I estimate that during the 20 years I have been in the Senate, I have helped 300,000 individuals and businesses cut through the red tape and delays of the federal bureaucracy," Cranston said. "After checking the facts as they were known at the time, I concluded that Lincoln had a legitimate complaint."

The growing cloud surrounding Lincoln and its owner is expected to play a role in Cranston's political future. In his 1992 re-election bid, he likely will face stiff opposition from a Republican challenger who will attempt to gain political mileage from the controversy.

"I would drool at the prospect of running advertisements saying Cranston and his son took a million dollars from Keating. Anyone would drool at the prospect," said Lee Stitzenberger, a GOP campaign consultant.

Stitzenberger said the magnitude of the Lincoln failure and the lawsuits it sparks are certain to keep Cranston's role in the affair before the public. "This is



AP

Sen. Alan Cranston
Aided failed Lincoln Savings

The Orange County Register
 (Indicate page, name of
 newspaper, city and state.)
Santa Ana, California

(Mount Clipping in Space Below)

Lincoln's parent company, Georgia congressman linked

By Jonathan Lansner
 The Register

Lincoln Savings and Loan's extensive political reach included the House of Representatives where an influential Georgia congressman had political ties to the institution's former parent company.

Rep. Doug Barnard, D-Ga., acknowledged Monday that American Continental Corp. Chairman Charles Keating, his family and his business associates donated \$20,000 to his campaign during 1985 and 1986. Barnard's campaign raised \$347,000 in those two years for his 1986 re-election to the House, according to Federal Election Commission records.

Keating's company lost control of Irvine-based Lincoln in April when it was seized by federal regulators. The government has filed a \$1.1 billion fraud and racketeering suit against Keating, family members and company officers for the mishandling of Lincoln.

Barnard insisted that there was nothing wrong in Keating contributing to his campaign to represent a rural district of Georgia.

"My skirts are clean. ... My conscience is fully clear," Barnard said of his relationship with Keating.

When the House Banking Committee — of which Barnard is a member — begins a series of four hearings today on Lincoln's demise, Keating's political ties are likely to be examined. Already, five US senators have been criticized for meeting twice with regulators in April 1987 about Lincoln.

Keating, through his attorneys, repeatedly has defended his business and political activities.

Barnard, a former banker who

during his eight terms in Congress has developed a reputation as a supporter of business interests, has been chairman of the House Commerce, Consumer and Monetary Affairs subcommittee since 1982.

That subcommittee in 1985 held hearings on new twists in the savings and loan industry such as direct investment in businesses and collecting deposits through wholesale operations. This contrasted to the industry's traditional role: making home loans and gathering deposits from small savers.

Keating testified in front of Barnard's committee in support of both tactics.

Barnard, who sided with Keating on those issues, also has been a strong supporter of tougher regulatory powers, especially when it comes to fraud and mismanagement. Barnard's committee issued a report in October 1988 that gave Congress a view of widespread insider abuse at the nation's savings and loans.

"As a former businessman, I am very sensitive to the appearance of a conflict of interest — I see nothing here," Barnard said.

Edwin Gray, who was the bank board's chairman through June 1987, said he was aware of Barnard's support for Keating causes.

In an interview last week, Gray said that in the fall of 1986 Barnard asked about the lengthy investigation that federal regulators in San Francisco were conducting into Lincoln's finances.

Barnard said he recalled the meeting, but claimed he did not come to bat for Keating.

"I never asked Ed Gray anything for Keating," Barnard said.

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Title: *Lincoln's parent company
 Georgia congressman linked*

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Indexing: *L.A. Division*

58C-PX-41605-1X2
27

for

(Mount Clipping in Space Below)

Probe asked on Keating tie to Glenn

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The Senate Ethics Committee has been asked to probe the extent of Charles H. Keating Jr.'s influence with Sen. John Glenn, D-Ohio, a move that could lead to a similar look at Arizona Sens. Dennis DeConcini and John McCain.

The request for the probe was made this week by the Ohio Republican Party, which charged that Keating's contributions to Glenn's campaign committee and to an affiliated political-action committee may have led the senator to intervene with federal regulators in Keating's behalf in April 1987.

Glenn was one of five senators who met in DeConcini's office then to ask federal regulators why they were taking so long with an audit of Keating's Irvine, Calif.-based thrift, Lincoln Savings and Loan.

Glenn has denied any wrongdoing, and his office issued a statement charging that the request for an ethics

— See SENATE, page A7

(Indicate page, name of newspaper, city and state.)

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or 29D-LA-102009 Sub E
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Submitting Office: PHOENIX

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58C-PX-41605-A-1X3
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Jeff

Senate may probe Keating-Glenn tie

— SENATE, from page A1

probe is "not about ethics, it's about politics."

But Ohio GOP Chairman Robert Bennett, in a letter to the committee dated Monday, said Glenn's ties to Keating "cry out for investigation by the Ethics Committee."

Glenn's campaign received \$34,000 from Keating and his associates, and a political-action committee used for Glenn's presidential and Senate campaigns received an additional \$200,000. Bennett charged those contributions may "have formed the impetus for Senator Glenn to have attempted his intervention" in Keating's behalf.

Wilson Abney, chief counsel for the Ethics Committee, said he could not confirm or deny the existence of a complaint against Glenn, although a source said earlier that the panel is tracking reports on the Keating case closely.

If the committee decided to look into the matter, it could extend its probe into Keating's influence with other senators, including DeConcini and McCain, who both received large campaign contributions from the Phoenix developer and his associates.

DeConcini and McCain both have denied any wrongdoing in their efforts in behalf of Keating, and aides to both senators have said they see no reason for an ethics probe of their actions.

Similarly, neither political party in Arizona is expected to ask for such a probe.

However, the House is scheduled to begin a probe of the Lincoln scandal next month.

Keating already is the subject of a \$1.1 billion civil suit alleging that he funneled depositor funds from the thrift into his charitable and political causes, and officials have said the Lincoln failure could be the costliest S&L collapse in history.

The complaint against Glenn is the first move to have the Senate probe Keating's influence with senators.

DeConcini announced last week that he was returning his \$48,000 in contributions because of the allegations in the lawsuit against Keating. McCain, who received \$112,000 from Keating and his associates, has said he will take no action before a court rules on the case.

McCain has distanced himself from Keating since the April 1987 meeting, in which regulators warned the senators that criminal activity might



John Glenn / The senator has denied any wrongdoing.

be involved with Lincoln, but DeConcini continued trying to help Keating sell his thrift rather than have the government seize it. The sale never was allowed, and federal agents seized Lincoln on April 14.

Keating wielded great influence on Capitol Hill because of his contributions, and his access to senators led to the meeting, in which DeConcini, McCain, Glenn and Sens. Don Riegle, D-Mich., and Alan Cranston, D-Calif., took part.

Last year, Riegle returned \$66,000 raised for him by Keating. But Cranston has said he has no plans to return \$39,000 in campaign contributions he received or \$850,000 that Keating gave to voter-registration drives aimed at helping Cranston.

Keating had business ties to each state represented by the senators. His American Continental Corp., the flagship of his financial empire, is based in Phoenix; Lincoln, a subsidiary, is based in California, and Keating is a native of Ohio.

Keating and his attorney have said Keating contributed to each man because he believed each was a good senator.

Regulator Confirms He Met With Owner of Lincoln S&L

■ **Thriffs:** M. Danny Wall says the private sessions didn't influence his agency's decision to spare the company from seizure.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—M. Danny Wall, the chief federal regulator of the thrift industry, acknowledged Friday that he had met privately with the owner of Lincoln Savings & Loan shortly before his agency rejected a recommendation from its San Francisco office in 1987 to seize the failing Irvine institution.

Wall, who now heads the Office of Thrift Supervision, the successor agency to the Federal Home Loan Bank Board, said in an interview that he had three meetings and one telephone conversation with Charles H. Keating Jr., Lincoln's operator, while he was FHLBB chief.

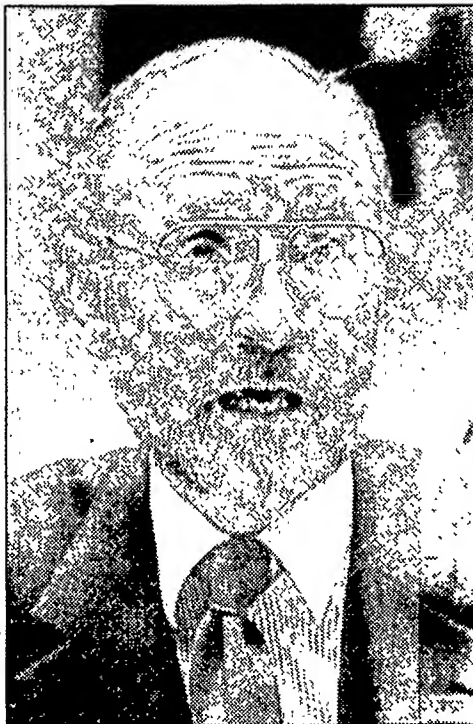
He was responding to charges by House Banking, Finance and Urban Affairs Committee Chairman Henry B. Gonzalez (D-Tex.) that Keating's personal pleas had persuaded the bank board not to seize Lincoln in 1987. Federal regulators took over Lincoln nearly two years later, and the delay cost taxpayers an estimated \$2 billion and deprived many unsuspecting investors of their life savings.

Wall, who has been subpoenaed to testify about the Lincoln affair before the House committee Nov. 7, said he and Keating had been personal acquaintances before their meetings at the bank board office.

But he said Keating had no special access, that he requested nothing improper and that the meetings did not affect the board's decision not to seize Lincoln at that time.

Keating, who has been charged with milking Lincoln's assets and thus precipitating the worst savings and loan disaster in the nation's history, had been introduced to Wall several years earlier in the office of Sen. Jake Garn (R-Utah). Before heading the bank board, Wall was an adviser to Garn.

Wall said he had always known Keating



Associated Press

M. Danny Wall

as a man prone to "pontificating . . . someone who thought very much of his own opinion, who wanted to talk and not listen." But when Keating met with him at the bank board in 1987 and subsequently, Wall recalled, "his self-confidence over his being in a regulated business was eroding."

He said the freewheeling businessman was temperamentally "not cut out" for the management of a business under federal and state regulation.

After Lincoln was bought in 1986 by Keating's company, American Continental Corp. of Phoenix, it shifted its investments into junk bonds, undeveloped real estate and other risky ventures. It is estimated that the failure of Lincoln, which was seized by the government last April, led to a \$2-billion federal payout to insured depositors.

L. William Seidman, chairman of the Federal Deposit Insurance Corp., which has

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES

Pg D1

Date 10/21/89

Edition Orange County Ed.

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taken control of Lincoln's assets, testified before the Gonzalez committee earlier this week that he thought it was improper for Wall to have met with Keating at the time the bank board was reviewing a recommendation from its San Francisco office about action against Lincoln.

"I am of a different view," Wall declared in the interview. He said he has always been willing to meet with disgruntled savings and loan officials. "I have been in public service for 28 years. I will meet and talk to anyone. Of course, there are times when, legally, I can't. I certainly do it whenever time permits."

Wall said Keating first came to see him at the bank board on Sept. 24, 1987, about four months after the San Francisco regulators found cause to recommend supervisory action against Lincoln. Wall said he had not read the report from San Francisco at the time of the meeting but that Keating's visit brought it to his attention.

He said Keating called on him to bring the matter, which already had been the subject of a 16-month investigation, to a speedy conclu-

NEXT STEP

■ The House Banking Committee will resume its hearings on the Lincoln Savings & Loan debacle on Thursday, when federal and state regulators with authority over California S&Ls will testify. Charles H. Keating Jr., chairman of Lincoln's parent company, American Continental Corp., and M. Danny Wall, head of the federal Office of Thrift Supervision, are scheduled to testify Nov. 7.

sion.

Like many other thrift officers who came to see him, Wall said, Keating often complained about how he was being treated by officials in the San Francisco office. But Wall said he dismissed those complaints as nothing he had not heard before in other cases.

"They always say, 'They are out to get me—they don't like me,'" he said. "What else would you expect someone to say?"

After the first meeting with Keating, Wall ordered an inde-

pendent review of the matter by senior staff in the Washington headquarters. The office in San Francisco was prohibited from performing supervisory and examination activity.

Carl Hoyle, a spokesman for Wall, said Friday that an independent review was necessary because the earlier audit was no longer valid. He said Lincoln's financial picture had improved and, by December, the thrift had hired a new chief executive who had the confidence of the bank board.

The second review led to a decision not to take supervisory action against Lincoln.

Keating again came to see the bank board chairman Jan. 28, 1988, complaining about press "leaks" regarding the board's dealings with Lincoln, which he alleged were coming from the San Francisco office, Wall said. He said his reaction to Keating's complaint was that "you know full well there is nothing I can do about that."

Finally, on Jan. 17, 1989, Keating paid his last visit to Wall's FHLBB office, Wall said. He came at a time when the board was closing in on Lincoln for suspected violations of a number of regulations. Wall said

Keating told him, "I've had enough, I want to get out," and declared his intention to sell Lincoln.

Wall later received a follow-up call on that visit from Keating after he had located a potential buyer. Sens. Alan Cranston (D-Calif.) and Dennis DeConcini (D-Ariz.) also telephoned Wall at the time and asked him to approve the sale, which was rejected by FHLBB.

Although Wall knew Keating before he went to work for FHLBB, he denied charges leveled by Gonzalez that as a Garn aide he had solicited donations from Keating for the Garn Institute of Finance at the University of Utah.

Both Lincoln and American Continental made contributions to the institute in 1986, according to Elaine Weiss, an official of the fund. The donations reportedly amounted to more than \$25,000. A Keating spokesman and fund officials supported Wall's contention that he never raised funds for the Garn Institute.

Wall said he had attended two institute board meetings on behalf of the senator before becoming FHLBB chief. Weiss said Wall also has served as a program speaker for the institute from time to time.

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JAN 28 1968	
FBI - LOS ANGELES	

for

(Mount Clipping in Space Below)

Tale of Lincoln takeover outrages House panel

By Jonathan Lansner
The Register

WASHINGTON — Irvine-based Lincoln Savings & Loan used extensive political ties and high-priced attorneys and accountants to thwart government intervention for two years, federal and state regulators told a shocked congressional panel Tuesday.

Officials from the San Francisco office of the US Office of Thrift Supervision and the California Department of Savings and Loan were both grilled and praised by the House Banking Committee, which is examining the nation's most expensive savings and loan

BUGGED: Regulators say their phone line at Lincoln was wired/14

failure.

Lincoln was taken away from American Continental Corp. of Phoenix by the federal government in April, almost two years after the San Francisco office had recommended such an action.

The cost of the takeover has been estimated at \$2 billion. About 23,000 California investors lost an estimated \$200 million from the purchase of uninsured corporate bonds during the two years after an initial warning was sounded about

Please see LINCOLN/14

LINCOLN: Panel shocked by political clout wielded by S&L

FROM 1
Lincoln's practices.

The regulators, whom several lawmakers called the heroes of the Lincoln fiasco, also blasted the Washington headquarters for caving in to Lincoln's arsenal of politicians and consultants.

Those ties, the committee was told, included five US senators, a member of former President Reagan's Cabinet, an economist who now is the chairman of the Federal Reserve Board and an independent auditor employed by Lincoln's parent company for \$950,000 a year.

The banking committee is trying to figure out why the San Francisco office's recommendation was rejected and why the Washington office halted supervision of Lincoln in May 1988.

By giving in to Lincoln's powerful lobbying efforts — which included several secret meetings with Office of Thrift Supervision Director M. Danny Wall — the cost to US taxpayers to insure the institution's depositors ballooned to \$2 billion, the House committee was told.

"I take no comfort in now being vindicated," said Michael Patriarca, top regulator at the San Francisco office.

In addition, the San Francisco officials charged that the delay in regulatory action allowed American Continental two more years of selling uninsured corporate notes rendered worthless by the company's bankruptcy.

The Office of Thrift Supervision defended its actions, saying both the San Francisco office and state regulators could have taken less harsh measures, but declined to do so.

"San Francisco failed to provide sufficient evidence to justify takeover," said Karl Hoyle, spokesman for the office.

Several lawmakers said they were stunned by Thursday's testimony.

Particularly incensed was House Banking Committee Chairman Henry Gonzalez, who called for Wall to step aside, at least while the committee's investigation continues. Gonzalez charged that Wall tried to get San Francisco officials to tone down their testimony.

"There was total corruption here," said Gonzalez, D-Texas.

Panel members also were told of Lincoln's high-risk business strategies — which included junk bonds, land and luxury hotels — and allegations of theft and fraud by company officials. The government filed a \$1.1 billion fraud and racketeering suit against company officials in September.

"This is one of the most amazing days in my 15 years here," said

(Indicate page, name of newspaper, city and state.)

P-1, 14
The Orange County Register

Date: 10/27/89

Edition: Santa Ana, California

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58C-PX-41605

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Rep. Charles Schumer, D-NY, who called American Continental Chairman Charles Keating Jr. "a financial pirate ... the Blackbeard of the financial industry."

Among the charges that San Francisco officials lodged at Wall during the hearing were that William Robertson, a staff member in the Washington office, was demoted in July 1987 after he concurred with the San Francisco office's report and moved to have Lincoln seized in July 1987.

They also testified that Wall effectively ended San Francisco's supervision of Lincoln by killing a September 1987 follow-up examination of its books that would have keyed on problems discovered by the review that led to San Francisco's takeover recommendation.

"This shouldn't have happened," said William Black, chief counsel for the San Francisco office. "Unfortunately, Lincoln can still happen again because the same people are still regulating thrifts."

The testimony of the San Francisco officials also implicated several political and government officials.

Five US senators, including California Democrat Alan Cranston, were mentioned repeatedly for meeting with San Francisco regulators in April 1987. All five had received large campaign contributions from American Continental officials.

The other senators are Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; John Glenn, D-Ohio; and Donald Riegle, D-Mich. Riegle and DeConcini later returned the contributions.

The senators have argued that a major reason they lobbied on Lincoln's behalf was a letter by Jack Atchison, then the partner in charge of Arthur Young & Co.'s audit of American Continental. The letter of Atchison, who joined American Continental in 1988, told the senators of the San Francisco office's vindictiveness and Lincoln's financial health.

Also discussed was the consulting work done for Lincoln by Federal Reserve Board Chairman Alan Greenspan. Greenspan wrote to San Francisco thrift officials in February 1985, saying Lincoln "posed no risk" to the federal deposit insurance.

It also was noted that another economist, George Bentson — who, with Greenspan wrote a report supporting Lincoln's pet strategy, investing in risky assets — was mentioned by the Reagan administration in 1986 as a possible nominee to the Office of Thrift Supervision's predecessor agency, The Federal Home Loan Bank Board.

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(Mount Clipping in Space Below)

Wiretap revealed at S&L

*Lincoln auditors'
phone was bugged*

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — Lincoln Savings and Loan officials spent millions of dollars for political influence and may have used a wiretap to delay government action against the failed thrift, the House Banking Committee was told Thursday.

Texas Democrat Henry Gonzalez, the committee chairman, said the actions were part of a pattern of "high-level corruption" in the operation and supervision of Lincoln.

The institution was seized by the federal government last April, a day after its parent company filed for protection from its creditors in bankruptcy court.

The Federal Deposit Insurance Corp. has estimated the bailout could cost taxpayers more than \$2.5 billion, making Lincoln the nation's costliest thrift failure.

Gonzalez said the illegal wiretap was discovered in April, on "what was supposed to be an absolute secure line" being used by examiners at Lincoln.

The tampering "allowed many

of the employees of Lincoln to eavesdrop on the most confidential calls," he said.

William Crawford, chairman of the California Department of Savings and Loan, testified that discovery of the bug helped explain why Lincoln officials seemed to have an unusual amount of inside information.

"They seemed to know what we were thinking," Crawford said. "When we would bring something up they would have the answer ready. We wondered how they were able to provide the answer sometimes."

Crawford's chief deputy, William Davis, said examiners eventually were ordered to "leave the premises and call us on the pay phone" before revealing any confidential information.

"We had felt for some time that there was special intelligence that Lincoln Savings seemed to have," Davis said.

Federal officials had similar experiences, according to William Black, acting district counsel for the federal Office of Thrift Supervision.

"Lincoln appears to have had superb intelligence," Black said.

"It was extraordinary and it was repeated . . . and the leaks were extremely harmful," he said. "Was there a mole in the Federal Home Loan Bank Board? Is there still? We don't know."

Indicate page, name of
newspaper, city and state.)

DAILY NEWS
Date: FRONT SECTION, PAGE 1
Edition: Fri., Oct. 27, 1989

Title: WIRETAP REVEALED AT
S&L

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or
Classification: 29A-LA-102007
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LOS ANGELES

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The testimony came during a dramatic 8½-hour hearing that painted a dizzying picture of widespread violations in the operations and supervision of Lincoln Savings.

Black and OTS regional supervisor Michael Patriarca said they tried to close down the institution in 1987 but were blocked because of the extraordinary political influence of Arizona millionaire Charles H. Keating Jr., director of Lincoln's parent company, American Continental Corp.

Keating spent millions of dollars in loans, campaign contributions and other payments to influence an array of bank auditors, politicians and government officials, the two regulators said.

"Individuals, firms and officials who should have known better fell all over themselves to sell their reputations in furtherance of the Lincoln cause," Patriarca said.

Keating's political network included five senators who together received more than \$1.3 million in contributions and other money through Keating, and who met with regulators on his behalf in April 1987.

"I think this meeting was the result of some extraordinary political influence, the like of which I have never seen," Patriarca said.

The five are Sens. Alan Cranston, D-Calif.; Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; John Glenn, D-Ohio; and Donald W.

58C-Px-41605-4

SEARCHED	INDEXED
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JAN 2	
FBI - LOS ANGELES	

Riegle Jr., D-Mich.

All five senators have said they urged regulators only to conclude their investigation of Lincoln one way or the other, and did not try to influence its outcome.

But in an unprecedented move after the meeting, supervision of Lincoln was transferred from San Francisco — where Patriarca and Black had recommended closure of the institution — and moved to agency headquarters in Washington.

Lincoln was finally closed last April, when the government seized the institution after its parent company filed for bankruptcy protection.

M. Danny Wall, director of the Office of Thrift Supervision in Washington, is the official who decided to delay action against Lincoln, and he was singled out for repeated criticism at Thursday's hearing.

"Faced with the fact that Mr. Keating didn't like his examiners ... Wall had an easy answer — banish them to Siberia," said Gonzalez, who called on Wall to step down until the hearings are completed.

Wall is scheduled to testify before the committee on Nov. 4, and Keating has also been summoned to appear that day.

Rep. Toby Roth, R-Wis., said after Thursday's hearing that he would introduce a House resolution asking the senators to appear before

the committee and explain their actions.

"In my 12 years in Congress I have never heard such an extraordinary day of testimony," Roth said.

The four regulators who testified Thursday said a variety of schemes were used to build Keating's political clout. They said Keating and other Lincoln officials:

- Inflated the salaries of company employees, then directed them to contribute the extra money to political candidates.

- Gave high-paying jobs to auditors after they completed favorable reviews of the company's books.

- Hired a large number of attorneys who were associated with government officials in attempts to exert influence.

- Made loans to government officials and their close associates.

- Commissioned favorable reports from economists Alan Greenspan, who later became chairman of the Federal Reserve Board, and George Benston, who later became a strong contender for appointment to the Federal Home Loan Bank Board.

- Bankrolled trade associations that lobbied for Lincoln's positions.

- Conducted secret meetings and negotiated secret agreements with ranking federal regulators of savings and loans.



William Crawford, left, of the state Department of Savings and Loan, talks Thursday with federal regulator Michael Patriarca.

(Mount Clipping in Space Below)

Top Regulator Blocked S&L Seizure, Panel Told

■ **Hearings:** Pair say the delay let Lincoln Savings run up huge debts. The firm may have bugged state auditors.

By WILLIAM J. EATON
TIMES STAFF WRITER

WASHINGTON—Two federal officials from California charged Thursday that M. Danny Wall, the nation's chief savings and loan regulator, "shot them in the back" and blocked a timely takeover of Lincoln Savings & Loan that could have saved taxpayers much of the estimated \$2 billion in cleanup

costs.

In separate testimony, state officials disclosed that an electronic listening device was discovered in Lincoln's offices in Irvine that could have been used to monitor conversations of state examiners as they called superiors about their audit of the troubled S&L.

The two federal regulators, who had raised red flags about Lincoln two years before the government finally acted, told the House Banking, Finance and Urban Affairs Committee that a similar financial disaster could occur again "because the same folks are still in charge of regulating thrifts."

Committee Chairman Henry B. Gonzalez (D-Tex.) immediately suggested that Wall step down or take temporary leave from his position as director of the Office of Thrift Supervision until the hearings into the Lincoln case are concluded.

After the hearing, Wall's agency issued a statement saying that Thursday's session presented a one-sided story because two witnesses from its Washington office did not get a chance to testify.

"Therefore, it is inappropriate for members of the committee to request . . . Wall to step aside permanently or until the hearings are completed," the statement said.

Leonard Bickwit, a Washington lawyer for Lincoln's parent company, American Continental Corp., said that the panel's hearings were "riddled from the start with factual inaccuracies." But Bickwit provided no specific denials to the allegations presented Thursday.

The testimony of Michael Pa-

(Indicate page, name of newspaper, city and state.)

Date: LOS ANGELES TIMES
Edition: FRONT SECTION, PAGE 1
Fri., Oct. 27, 1989

Title: TOP REGULATOR BLOCKED
S&L SEIZURE, PANEL TOLD

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triarca, director of the Office of Thrift Supervision's district office in San Francisco, and William K. Black, the district counsel, provided additional evidence that regional regulators had been stymied in their efforts to call attention to Lincoln's financial problems.

Lincoln was seized by federal regulators on April 14, 1989, the day after its parent company filed for bankruptcy. The cost of cleaning up the institution has been put at as high as \$2 billion, making it the most expensive thrift failure in history.

In addition to the losses to the government's thrift deposit insurance fund, which ultimately will be absorbed by taxpayers, an estimated 22,000 individuals are expected to lose more than \$200 million that they had invested in bonds issued by Lincoln's parent company.

Wall, who was chairman of the Federal Home Loan Bank Board before it was replaced by the Office of Thrift Supervision, and Charles H. Keating Jr., the flamboyant owner of Lincoln's parent company, have been subpoenaed to appear Nov. 7 before the House committee.

The committee is investigating the two-year delay that preceded the government's seizure of Lincoln and the actions of five U.S. senators, including Alan Cranston

(D-Calif.), who intervened with federal regulators on behalf of the institution.

Wall rejected a recommendation by the regional regulators that the government seize Lincoln in 1987, and he stripped the San Francisco office of its supervisory responsibility for the savings and loan.

The allegations made by Patriarca and Black, the San Francisco regulators, were underscored at Thursday's hearing by H. Joe Selby, former director of regulatory affairs at the bank board's Dallas office.

"The problems [at Lincoln] were loud and clear as early as 1986," Selby testified. "Supervisory control should have been in place by late 1987."

Black and Patriarca said that Lincoln used political influence with the five senators and got Wall's agency to make a series of "inexplicable" concessions that staved off appointment of a receiver to safeguard Lincoln's assets until last April.

Wall, who has acknowledged having a series of meetings with Keating while the investigation was under way, had previously challenged the competence and objectivity of his agency's San Francisco office.

In their first public reply, Black and Patriarca accused Wall and others in the bank board's Wash-

ington office of undercutting enforcement actions despite strong evidence of Lincoln's misconduct and unusually risky investments.

"Chairman Wall's instructions . . . to achieve a 'peaceful' resolution with Lincoln assured the outcome," Black said. "All that remained was to negotiate the terms of the bank board's surrender."

Black said that Lincoln was given effective veto power over which government official would be named to negotiate with the savings and loan, which government accountants would audit its books and which officials would supervise its day-to-day activities.

A May 20, 1988, "memorandum of understanding" between the bank board and Lincoln was drafted by Lincoln's attorneys in cooperation with Rosemary Stewart, head of the bank board's enforcement office in Washington, Black said.

It was ridiculed by regional regulators as "Rosemary's Baby" because it allowed Lincoln to increase its high-risk investments and violate other thrift regulations during the year before the firm finally was seized, Black contended.

In addition, Stewart signed a secret letter to Lincoln stating that the bank board would not refer anything found during its investigation to other government agen-

cies for possible prosecution or enforcement actions.

Wall demoted William Robertson, a career bank board official who had recommended that the government place Lincoln in receivership in July, 1987, and blocked a field examination of Lincoln by the San Francisco office in September, 1987, the California regulators said.

Patriarca charged that Keating tried to pack the bank board with his hand-picked agents. He said that Keating was able to obtain a temporary appointment for Lee Henkel, who had borrowed \$60 million from Lincoln.

Shortly after he was named to the bank board in November, 1986, with the support of Sen. John McCain (R-Ariz.) and then-White House Chief of Staff Donald T. Regan, Henkel proposed a rule that would have directly benefited Lincoln, Patriarca said.

Henkel resigned after the Office of Government Ethics referred the entire matter to the Justice Department for investigation, the committee was told.

The discovery of the listening device at Lincoln's offices in Irvine was disclosed to the committee by California Savings and Loan Commissioner William J. Crawford and his deputy, William Davis.

The state regulators reported that the device was found after the

government seized control of the institution in April. They said they did not know for certain if it was used to monitor telephone conversations by state examiners who were poring over Lincoln's records.

Long before the device was discovered, the regulators said, they had suspected that Lincoln was gathering intelligence on the audit, and they had cautioned their examiners to use a pay telephone if

they had any confidential material to discuss.

Bickwit, the American Continental attorney, said that the company never authorized or took part in any bugging activity. "There's no reason to suspect any involvement of American Continental or its executives," he said.

Staff writer James S. Granelli in Orange County contributed to this story.

(Mount Clipping in Space Below)

Keating's influence called wide, deep

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — The "extraordinary" political reach of Arizona financier Charles H. Keating Jr. was as broad as his pockets were deep, according to regulators who tried to close his Lincoln Savings and Loan in 1987.

Keating spent millions of dollars in salaries, loans, campaign contributions and other payments to deter enforcement action against the Irvine institution, the regulators told members of the House Banking Committee.

William Crawford, head of the California Savings and Loan Commission, even told the committee Keating knew of his appointment almost as soon as he did.

"Mr. Keating told me that he was the second guy to know I was commissioner," Crawford said, shaking his head. "He told me, 'Remember that painter who was painting your office when the governor called?'"

"What happened was, this guy left and took his break and called (to pass along the news)," Crawford said.

Whether or not Keating was just twitting Crawford with a story about his inside knowledge, the incident illustrated an emerging picture of the banker's connections, both large and small.

Crawford and other state and federal regulators testified that last week on the second day of hearings into Lincoln's collapse that the beneficiaries of Keating's largesses included dozens of accountants, auditors, lawyers, high-ranking government officials and influential politicians — reaching right in to the Reagan cabinet.

"Individuals, firms and officials who should have known better fell all over themselves to sell their reputations in furtherance of the Lincoln cause," said Michael Patriarca, the U.S. Office of Thrift Supervision regional head in San Francisco who tried to close Lincoln in 1987.

Patriarca and his office's district counsel William Black were among the witnesses at dramatic 8½-hour hearing into the Lincoln collapse, which could cost the federal government \$2.5 billion to bail out.

In extraordinary detail, they described a pattern of special treatment, secret agreements, favoritism and "fawning" by top Washington officials that deterred enforcement action against Lincoln.

"Clearly, we were shot in the back while trying to protect the taxpayers," Black said, claiming that Keating's unprecedented political influence made him "untouchable" by regulators who sought to close the thrift.

Patriarca said the influence extended to "all three branches of government," and also included lawyers, accounts, consultants and auditors who gave Lincoln favorable reviews.

House Banking Committee Chairman Henry Gonzalez, D-Texas, laid the blame on M. Danny Wall, chairman of the Office of Thrift Supervision, and repeated a call for Wall to resign.

Wall responded with a statement saying such a step would be "inappropriate" and describing the testimony as one-sided because Washington officials have not yet had a chance to appear.

"An important side of the regulatory story has not been heard yet," Wall said.

Last week's testimony was seized on by some congressman to raise questions about the costliest savings and loan failure in history.

"So many people got co-opted in this whole process," said Rep. Floyd H. Flake, D-N.Y., a member of the banking committee.

"It appears as if (Keating) infiltrated the system to the point where he could buy regulators, could buy politicians . . . and bring pressure against anyone who got in his way," Flake said.

Keating's political network included Sen. Alan Cranston, D-Calif. and four other senators who together received more than \$1.3 million in contributions and other money from Keating, and who met with regulators on his behalf in 1987. Residents of Lincoln's headquarters

Dennis DeConcini, D-Ariz.; John McCain, R-Arizona; Donald Riegle Jr., D-Mich., and John Glenn, D-Ohio.

All five senators have said they urged regulators only to conclude their investigation of Lincoln one way or the other, and did not try to influence its outcome.

But in an unprecedented move after the meeting, supervision of Lincoln was transferred from San Francisco — where Patriarca and Black had recommended closure of the institution — and moved to agency headquarters in Washington.

"I think this meeting was the result of some extraordinary political influence, the like of which I've never seen," Patriarca said.

Black, Patriarca and two California regulators — Crawford and his chief deputy, William Davis — said Keating exerted influence in a variety of other ways as well.

They claimed he tried to influence the California regulators by making several trips to Sacramento to meet with members of Gov. George Deukmejian's cabinet. He was accompanied by Deukmejian's chief fund-raiser, Karl Samuelian, who he had hired as legal counsel, they said.

Crawford said no one in the Deukmejian administration tried to sway him, and Black said there is no proof that Samuelian's presence led to any special benefits for Lincoln.

"But my view is people tend to hire folks because they think they will have an effect," Black said. "It

(Indicate page, name of newspaper, city and state.)

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Los Angeles, CA

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sets up a question in the mind of the person you are dealing with."

Crawford said attempts to influence regulators continued as late as this spring. Just before Lincoln was seized, Keating was trying to sell the institution with support from Wall, Crawford said.

DeConcini and an aide to Cranston, Carolyn Jordan, made calls in support of the sale to California officials, whose approval was necessary for the deal to proceed, Crawford said.

Other examples of Keating's clout cited in testimony included the hiring of Federal Reserve Board Chairman Alan Greenspan, then a private economist, as a consultant to defend the thrift's financial condition.

In 1984 and 1985, when Keating was fighting a bank board effort to restrict direct commercial and real estate investments by thrifts, he enlisted the help of Greenspan, who in a letter distributed to members of Congress described Lincoln as a strong institution, Black said.

Black said Keating also succeeded through McCain and then Treasury Secretary Donald Regan in getting Lee Henkel appointed to the three-member Federal Home Loan Bank Board. Henkel, according to Black, had received large loans from Lincoln and resigned shortly after taking office in 1987.

Patriarca said Keating even tried to hire his wife when Patriarca took over supervision of the Irvine thrift. He said his wife, Laura Patriarca, was shocked and gave the offer "an absolutely cold reception."

The hearings resume Tuesday, with testimony from representatives of the Washington thrift office and some of the 20,000 investors who lost money when Lincoln failed. The hearings are scheduled to conclude Nov. 7, when Wall and Keating — who have both been subpoenaed — are supposed to appear before the committee.

Keating has not said whether he will answer questions from the committee or assert his Fifth Amendment right to maintain silence.



Charles H. Keating Jr.
Had "deep pockets"

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ORANGE COUNTY REGISTER
Pg A1

(Mount Clipping in Space Below)

Date: 11/7/89

GOP's Nolan pressured regulators to drop plans to rein in Lincoln

By Chris Knap,
Jonathan Lansner
and Jeff Weir
The Register

State regulators, facing political opposition from Assemblyman Pat Nolan and lobbyists for Lincoln Savings and Loan, in 1985 dropped a proposed rule that would have prohibited Irvine-based Lincoln from making many of the investments that caused its collapse.

Backed by the state's industry trade group, California Savings and Loan Commissioner William Crawford had proposed in fall 1985

Nolan confirmed that he talked with Crawford and fought the 80 percent rule, but said he did so "out of concern that such an arbitrary regulation would hurt well-run associations as well as the problem ones."

The collapse of Lincoln Savings, formerly controlled by Keating's American Continental Corp. in Phoenix, is the subject of hearings before the House Banking Committee in Congress, a \$1.1 billion suit by the federal government and criminal investigations by the US Attorney's Office and the FBI.

Please see LINCOLN/10

Covering Lincoln's deposits is expected to cost US taxpayers \$2 billion, which would make it the costliest savings-and-loan bailout so far.

During the past month, federal regulators have disclosed numerous occasions in which Keating, whose companies have donated hundreds of thousands of dollars to politicians, used political connections to thwart attempts to crack down on Lincoln's investment practices.

■ **KEATING:** House panel delays his testimony for two weeks/10

that savings and loans be forced to put at least 80 percent of their money into mortgage loans.

But Crawford said he dropped the proposed change before the year was out — even though it did not require the Legislature's approval — after he was pressured by Nolan, R-Glendale, and other political allies of Charles H. Keating Jr.

It is the only major rule that Crawford has abandoned during his four years in office.

Keating, who could not be reached for comment, has defended his political sway in the past. At a news conference in April, Keating made no bones about whether his political contributions had bought him influence: "I want to say in the most forceful way I can: I certainly hope so."

He has denied any wrongdoing regarding American Continental's management of Lincoln.

"This guy (Keating) was a master of politics," Crawford said. "He knew who to go see to get what he had to have done. He was pretty smart, but I think he was too greedy."

Crawford, the primary advocate of the 80 percent proposal, said he was urged to drop the rule change in late 1985 by Nolan, who then was the Assembly's minority leader, and Lawrence Taggart, a former savings and loan commissioner who was employed by a company partly owned by Lincoln.

Nolan was the author of the 1982 law that let savings and loans invest up to 100 percent of their assets in ventures such as stocks, junk bonds and undeveloped land.

Nolan was a beneficiary of Keating's political budget: He received a \$9,000 contribution from Lincoln Savings in December 1985 and an additional \$11,000 from Lincoln and American Continental in 1988. Nolan said the contributions and his actions were unrelated.

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Crawford said he was contacted by Nolan shortly after he proposed his restrictions on non-mortgage investments.

"Nolan called me," Crawford

said in a recent interview. "He was upset. He said, 'Why are you doing this?' He said Lincoln had 40 percent of their assets in this category, and we were cutting that in half."

After five days of declining interview requests, Nolan on Monday read a statement about his involvement in the 1985 proposal. But he refused to answer questions and broke off a telephone interview when a reporter persisted.

He said all his actions were based on his desire to keep the savings-and-loan industry healthy.

"At all times, I've tried to protect the citizens of California and do what's in their best interest," Nolan said. "At no time have campaign contributions in any way affected my decisions or actions as a legislator."

Taggart, who enthusiastically endorsed deregulation of the savings-and-loan industry while he was commissioner, left state employment in January 1985 to join a San Diego company, TCS Financial.

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Three weeks later, Lincoln bought nearly 20 percent of TCS Financial's stock for \$2.9 million. Taggart, in a letter to Crawford, demanded public hearings on Crawford's proposal.

"He was taking his instructions from Keating, even if the check went from Keating to TCS to Taggart," Crawford said.

Taggart, who is scheduled to testify before the House Banking Committee today, did not return telephone calls Friday and Monday.

After those lobbying contacts, Crawford dropped the idea of limiting investment powers. He said Monday that it was clear that Keating had enough clout to stop the proposal.

"I bet on the numbers all the time," he said. "If you can get something done, do it. If you can't, why waste your time? I believe you don't go out and shoot yourself in the foot if you don't have to."

The state's deregulation of thrifts now is being blamed by lawmakers and regulators as a major

cause of the nationwide crisis.

In California, the shift from mortgage lending to riskier investments — such as Wendy's franchises and windmill farms — has contributed to the collapse of 51 state-chartered savings and loans since 1985. In Orange County, 14 locally based savings and loans have failed or been bailed out, costing taxpayers \$7 billion.

"In hindsight, it was a bad thing that the (Nolan) law was passed in the first place," said Jerry Barrone, former chairman of the California League of Savings Institutions. "Even though the whole industry was clamoring for deregulation, 97 percent of the deregulation hurt the industry."

Leonard Shane, chairman of Mercury Savings in Huntington Beach, agreed.

"Pat Nolan and Larry Taggart

did more to destroy the savings-and-loan system than any two other people," he said.

No California institution took greater advantage of deregulation than Lincoln Savings.

American Continental Corp. bought Lincoln for \$51 million in 1984. Under Keating's control, Lincoln used depositors' money to build a \$300 million resort in Arizona with restaurants named after him and his wife, invested \$100 million with Ivan Boesky, and spent \$135 million on roads, sewers and lakes for an as yet unbuilt housing development in the Arizona desert.

At the same time, Lincoln abandoned making mortgage loans.

"If you took all the worst essence of the savings-and-loan crisis, you could distill it all in Lincoln," said Rep. Charles Schumer, D-NY, at a recent House hearing on Lincoln's

collapse.

Concerned about the sagging fortunes of many savings and loans in California, Texas and Florida, federal regulators started clamping down on the industry's investment practices in late 1984.

The Federal Home Loan Bank Board, then the industry's chief governor, limited speculative investments to 10 percent of a savings and loan's assets.

However, under a grandfather clause, savings and loans with more than 10 percent of their assets in direct investments would not have to meet the new limit, but would not be allowed to raise their percentages, either.

At that time, Lincoln had \$1 billion invested in such ventures, or about 40 percent of its assets.

The bank board's rule soon came under fire in Congress from back-

ers of deregulation.

With the federal restriction in doubt, the League of California Savings Institutions asked Crawford in fall 1985 to impose a similar limit on California institutions. The proposal Crawford put forward would have put a 20 percent cap on direct investments and contained no grandfather clause.

Nolan soon voiced his opposition.

League officials, fully aware of Nolan's power as the GOP leader in the Assembly, asked him for a meeting to discuss the rule change.

But when the league's two top officers, Barrone and Dean Cannon, showed up at Nolan's Glendale office Nov. 27, 1985, for a supposedly private talk, they said, they encountered a roomful of people, including several lawyers who worked for Lincoln or Keating.

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In addition to Nolan and his top aide, Bob Haueter, the group included Taggart.

In interviews last week, Barrone and Cannon said they felt "bush-whacked."

"It was quite evident, rather quickly, that we and the commissioner were going to have a tough time getting this (rule) enacted," Cannon said.

In his statement, Nolan confirmed that he met with representatives of the league and Taggart on Nov. 27, 1985.

That meeting, Barrone and Cannon said, persuaded the league to abandon its support of the proposed restrictions. Crawford reached the same conclusion in mid-December, according to department records.

Despite a clause in the 1982 deregulation law allowing the commissioner to promulgate rules "for safety and soundness," Nolan told Shirley Thayer, the department attorney who handled the rule, that the department would be exceeding its authority by enacting it, Thayer said.

She said the department was taken off the hook when the league asked in mid-December 1985 that the proposed rule be dropped.

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Accountant pleads 5th

Amendment before panel probing Lincoln S&L

By Jonathan Lansner
The Register

WASHINGTON — An Arizona accountant who is one of the key figures in the Lincoln Savings and Loan case refused to testify before the House Banking Committee on Tuesday, citing his constitutional right against possible self-incrimination.

Jack Atchison's work in auditing Lincoln's books and his subsequent hiring by Lincoln's parent company, Phoenix-based American Continental Corp., play a key role in the regulatory and political whodunit surrounding the collapse of the Irvine-based Lincoln.

"Your testimony could be quite helpful," Rep. Henry Gonzalez, D-Texas, the committee's chairman, told Atchison.

Gonzalez cited letters written by Atchison that might have persuaded five US senators to lobby regulators on behalf of Lincoln in 1987.

Edwin Gray, the former top US savings-and-loan regulator, told the committee Tuesday that four of those senators, including California Democrat Alan Cranston, improperly asked him at that meeting to drop an industry rule that was hurting Lincoln.

But in the culmination of 11 hours
Please see **LINCOLN/23**

of other testimony Tuesday evening, Atchison first asked for television cameras and radio microphones to be turned off.

Atchison, who was subpoenaed by the committee, then invoked his Fifth Amendment right against possible self-incrimination.

■ **TAGGART:** Panel ridicules former state S&L commissioner/C1

Lincoln was taken over by the government in April, after American Continental filed for Bankruptcy Court reorganization. It is expected to become the nation's most expensive savings-and-loan failure, with a \$2 billion price tag to US taxpayers.

Tuesday's hearing was the fourth in the House committee's investigation into how American Continental kept Lincoln for two years after regulators first said the government should take it over.

"I invoke my right not to bear witness against myself," Atchison said. "I respectfully decline to answer questions."

While he was Lincoln's outside auditor as partner in the firm of Arthur Young & Co., Atchison wrote letters to lawmakers telling them of Lincoln's financial health and of regulators' unfair scrutiny of the institution.

"The duration of this examination appears to be clearly outside normal standards," Atchison wrote to the senators in March 1987, according to copies of the letters given to the committee Tuesday. "Lincoln's strategies are not that different from other successful thrifts in the West."

About 6 p.m. on April 2, 1987, said Gray, who was then chairman of the Federal Home Loan Bank Board, he was called into the office of Sen. Dennis DeConcini, D-Ariz.

Gray said Tuesday that he was surprised to find three other senators there: Cranston; John Glenn, D-Ohio; and John McCain, R-Ariz. Gray said he was first told of the senators' interest to meet with him by Sen. Donald Riegle, D-Mich., who did not attend the meeting.

It was unusual for four senators to meet with him, all without mem-

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bers of their staffs, Gray said.

Gray told the committee that he believed that the senators, each of whom had received large campaign contributions from American Continental and its officials, were influenced by Lincoln's attempt to paint its regulatory problems as his own vendetta against the institution.

The senators fell for the scheme, Gray said: "When enough money flows, it's apparently easier to be gullible."

The five senators have denied any wrongdoing, saying they were only asking questions on behalf of a constituent and that Gray is twisting their intentions.

Gonzalez said Tuesday that the senators will be given a chance to appear before the committee.

"The meeting was a stupid mistake; the circumstances looked suspicious but nothing wrong was done," said Murray Flander, Cranston's spokesman. "Everything since has been distorted."

But Gray told the House committee that the meeting was "highly unusual" in content and style.

"Someone is not telling the truth," Gray said.

At the meeting, DeConcini, in particular, pressed him to drop a rule that limited the amount savings and loans could invest outside their traditional mortgage-making business, Gray recalled.

"I was shocked," he said.

Committee member Jim Leach, R-Iowa, criticized the senators and said the rule they were protesting

was too weak as it was.
"Philosophically, it was egregious to argue the other side," Leach said.
Lincoln was a heavy investor in unorthodox ventures, which regulators now claim led to its downfall.
DeConcini, Gray charged, suggested that Lincoln would concentrate on mortgage lending if Gray agreed to drop the rule.
Gray said he did not give the senators what they wanted and advised them to meet with federal regulators from San Francisco about their concerns regarding Lincoln.
Gray did not attend that subsequent meeting on April 9, 1987, which included the four senators and Riegle.
A month later, the San Francisco regulators called for the government to take Lincoln away from American Continental.
Gray said his agency did not have enough time to prepare that recommendation for formal consideration before he left office in July.
His successor, M. Danny Wall, has been widely criticized for overruling the San Francisco examiners and giving Lincoln a new examination in 1988. Wall has said previously that Arthur Young's audit was a key element in his decision.
But Gray's story did not sit well with many committee members, who accused him of trying to push off his own problems as a regulator on the senators. Some lawmakers suggested that Gray might have been lying or coloring his testimony to fit his own needs.
"If these senators were here today, they would be saying, 'Who do

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you believe — us or this man, Ed Gray," said Rep. Carroll Hubbard, D-Ky. "Your testimony may be flawed."
Others committee members said they believe that Gray was making too much of the meeting.
"What's the significance of this? Why blame the senators?" said Rep. Richard Neal, D-Mass.
"A lot of this seems to be your editorializing," said Rep. Mary Rose Oakar, D-Ohio.
Under questioning, Gray backed off from some of his allegations in his opening statement before the committee.
Among other things, he acknowledged that the senators' actions

did not influence any regulatory action while he was in office. He also provided no evidence that the Lincoln campaign donations actually got Keating more than a meeting.
"When you say there were payoffs being made, you should be able to back it up," Gray said.
Gray and his former top assistant, Shannon Fairbanks, told the committee about what they contend were other attempts by Keating to influence the bank board. Keating was supposed to testify Tuesday, but got a two-week reprieve from the committee on Monday.
Gray complained that the Rea-

gan White House, most notably Chief of Staff Donald Regan, repeatedly gave him a hard time about his attempts to clean up the troubled industry.
And Fairbanks recounted how Keating told her Nov. 22, 1985, of his interest in hiring Gray away from the bank board to "help get our corporate initiatives past the existing regulatory roadblocks."
Gray rejected the job offer.
Fairbanks said she also was approached by a friend, Barbara Thomas, who was a former member of the Securities and Exchange Commission, for confidential information about Lincoln. Fairbanks refused the request.

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Cranston pressured him, ex-official says

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — The nation's former top savings regulator claimed Tuesday that Sen. Alan Cranston and three other lawmakers pressured him in 1987 to ease investment restrictions on the troubled Lincoln Savings and Loan Association.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, said the pressure was exerted in a closed-door meeting with Cranston and Sens. Dennis DeConcini, D-Ariz; John McCain, R-Ariz; and John Glenn, D-Ohio.

The lawmakers have denied Gray's account of the meeting, but in testimony Tuesday before the House Banking Committee, Gray said their denial "is simply not credible."

"They cannot bear to tell the truth about it now," Gray said. "The fact that this meeting became public knowledge has deeply embarrassed these senators."

"They did not believe this signal effort to subvert the regulatory process for their wealthy friend and contributor would ever come to light," he said.

Cranston, DeConcini, McCain and Glenn all received substantial political contributions from Arizona financier Charles H. Keating Jr., the chairman of Lincoln's parent American Continental Corp.

Along with Sen. Donald W. Riegle, D-Mich, who attended a later meeting with regulators, they received a combined \$1.3 million from Keating and his associates in campaign and other contributions.

Gray said the contributions were part of a scheme by Keating to make it appear that Lincoln was being treated unfairly by savings and loan regulators.

"Senators Cranston, DeConcini, Glenn and McCain had evidently bought off on the scheme when they met with me on April 2, 1987," he said.

"The receipt of very substantial gifts from Charles Keating and his associates had long since put them in the right frame of mind to ... embrace the notion that there was somehow a vendetta against Lincoln."

"When enough money flows, it's apparently easier to be gullible," Gray said.

His testimony drew a blistering rebuke from several members of the Banking Committee, including Rep. Carroll Hubbard Jr., D-Ky.

Hubbard criticized Gray for "impugning the integrity of four U.S. senators," who he described as close friends. Citing news reports that Gray had taken dozens of overseas trips at taxpayer expense, he accused Gray of being a "flawed" witness.

"I am not known for lying," Gray responded, "and I have absolutely nothing to gain by not telling the truth."

Later, California's former savings and loan chief told the congressional investigators that Lincoln Savings and Loan was indeed the innocent victim of overzealous regulators who "fabricated" a crisis in the nation's thrift industry.

"It's a shame that what was once a small skirmish between the regulators and Lincoln evolved into a major confrontation," former California Savings

and Loan Commissioner Larry Taggart told a House committee investigating the \$2 billion collapse of Lincoln Savings and Loan.

Taggart acknowledged that he had extensive business dealings with Lincoln after leaving government and other institutions he had regulated, but he denied conflict-of-interest allegations.

Taggart was Gov. George Deukmejian's appointee as chief regulator of savings and loans during 1983 and 1984, a period of explosive deregulation that he enthusiastically supported.

Murray Flander, Cranston's spokesman, described Gray's testimony as "a rambling, 10,000-word document of political paranoia."

Flander said Cranston attended the meeting only to urge the bank board to wrap up its investigation of Lincoln, and made no attempt to influence Gray's actions against the thrift.

He said Cranston now realizes, however, that it was "a stupid mistake" to attend the meeting in the first place.

"Four senators meeting alone with Mr. Gray is three senators too many, and Alan Cranston has admitted that it was a mistake," Flander said.

"The problem is, everything has been warped through the prism of that first mistake, in-

DAILY NEWS

SAN FERNANDO, CA

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cluding Mr. Gray's perception of what went on," he said.

Tuesday's testimony came on the fourth day of hearings by the House Banking Committee into the \$2.5 billion collapse of the Irvine-based Lincoln Savings and Loan.

Federal regulators seized the institution in April, the day after its parent company filed for bankruptcy protection. Government officials have described the Lincoln failure as the costliest in U.S. history.

The banking panel is trying to determine why regulators did not act sooner to seize the failing thrift, which officials knew was spiraling toward insolvency more than two years ago.

Field examiners in San Francisco recommended in May 1987 that Lincoln be taken over because it was operating in an unsafe and unsound manner, but their recommendation was rejected.

Federal regulators have filed a \$1.1 billion civil racketeering and fraud suit against Keating, claiming he and his family looted Lincoln Savings assets for their personal use, including large political contributions.

He is also the target of a criminal probe, and the Senate Ethics Committee is considering an inquiry into his ties with the senators who intervened on his be-

half.
Several lawmakers have suggested the senators should appear before the House Banking Committee to explain their actions, but Flander said Cranston had no plans to do so.

The Ethics Committee has asked each senator to explain his actions on Keating's behalf, and Flander said Cranston's response has not been completed.

"He will not testify anywhere until the Senate Ethics Committee has concluded its business," Flander said. "We believe we'll get cleared by the Ethics Committee and that will do it."

Gray said that he was "ordered to come alone" to the April 2, 1987, meeting.

The absence of staff members, he claimed, was a purposeful attempt by the lawmakers to preserve "deniability" about what was discussed in the meeting.

"I felt a tenseness in the air, an awkwardness that was overwhelming," Gray said.

DeConcini did most of the talking, Gray said, and asked him to rescind a rule that limited Lincoln's use of federally insured assets for potentially risky investments.

He said the other three senators "raised no objection whatsoever" when DeConcini proposed "that I withdraw a duly adopted regulation on behalf of their 'friend' and their contributor."

As chairman of the bank board, Gray had proposed regulations to drastically cut the savings and loan's ability to invest directly in risky investments using federally insured deposits.

Just two months before the meeting, Lincoln had sued the bank board over the proposed regulation, which was finally enacted this summer as part of a \$157 billion taxpayer bailout of the savings and loan industry.

Gray said DeConcini told him that "he and the other senators were there on behalf of their friend at Lincoln Savings."

"He said that if I withdrew the regulation ... they would get their friend to make more home loans," he testified, adding that "it sounded like a quid pro quo and it was a quid pro quo."

DeConcini denied through a spokesman Tuesday that any such deal was proposed.

CRANSTON AND KEATING

The following is a chronology of key events linking Sen. Alan Cranston and Arizona financier Charles H. Keating Jr.

■ **1986:** Sen. Alan Cranston accepts \$47,000 in campaign contributions from Charles H. Keating Jr., the Phoenix, Ariz., businessman and chairman of American Continental Corp., and Keating affiliates for his 1986 re-election campaign. Keating associates also contribute \$85,000 to the Democratic State Central Committee of California.

■ **April 2, 1987:** Cranston and three other senators — Dennis DeConcini, D-Ariz., John McCain, R-Ariz., and John Glenn, D-Ohio, — meet with Edwin Gray, then-chairman of the Federal Home Loan Bank Board. A week later, Sen. Donald Riegle Jr., D-Mich., attends a meeting with the senators and federal regulators. Together the senators received more than \$1.3 million in contributions and other money from Keating, his associates and businesses, including Lincoln Savings and Loan of Irvine.

■ **May 1988:** In an unusual move, federal regulatory authority for Lincoln is transferred from the San Francisco district office to Washington, D.C.

■ **February, 1989:** American Continental contributes \$400,000 to a voter registration group organized by Cranston's son, Kim, after Sen. Cranston asks Keating for the contribution. Kim Cranston said he stepped down from secretary-treasurer to become board member about the time the contribution was made.

■ **Early April, 1989:** Cranston urges regulators to let Keating sell Lincoln to a group headed by John Rousselot, former congressman from San Gabriel, saying the sale would benefit California bond holders. A Cranston aide, Carolyn Jordan, made calls to California officials in support of the sale, as did DeConcini, regulators said.

■ **April 14, 1989:** Bank board officials seize Lincoln, one day after its parent company American Continental Corp. files for bankruptcy protection. Lincoln's losses are estimated by the bank board to exceed \$2.5 billion, the costliest bailout in the nation.

■ **May 30, 1989:** Gray writes a letter to McCain, and characterizes the April 1987 meetings, calling a proposal by DeConcini to aid Lincoln an abuse of senatorial authority.

■ **June 7, 1989:** Cranston writes to Gray and disputes his version of the April 1987 meeting, denying there was any impropriety. Cranston describes his position on Lincoln Savings and Loan of Irvine: "What I said to you about Lincoln Savings when you were chairman of the FHLBB was clear and simple: Do something to end the inordinate delay in the examination of Lincoln," Cranston wrote. "If Lincoln was violating regulations, take appropriate action against it. If Charles Keating had broken any laws, bring charges. But, if a case could not be made against Lincoln, then bring a halt to what appeared to be the harassment to which Lincoln was being subjected by your regulators."

Don't keep (Charles) Keating twisting in the limbo of your bureaucrats' malicious indecision."

■ **June 22, 1989:** Cranston asks U.S. Controller General Charles Bowsher to investigate whether California regulators improperly approved the sale of American Continental Corp. junk bonds through Lincoln branch offices. About 23,000 bondholders are suing to recover their losses, because the bonds were not federally insured.

■ **July 16, 1989:** The Daily News discloses Cranston asked Keating for financial help 17 months earlier on behalf of his son's voter registration group. Cranston told the Daily News, "If you adopt a rule that you'll never do anything for anyone (who has made a contribution), then it would be unethical to ever take a campaign contribution."

■ **July 17, 1989:** Cranston, in a prepared statement, says he solicited \$850,000 for three non-profit voter registration drives from Keating, including his son's. Cranston says he did "a pretty stupid thing, politically" but denies asking regulators to go easy on Keating in exchange for political or charitable contributions.

■ **July 26, 1989:** The Daily News reports another Kim Cranston voter registration group, The Organizing Institute of Pacific Grove, was the \$549,586 beneficiary of the Forum Institute, a Washington, D.C., non-profit organization that received \$325,000 from Keating in 1987 and 1988. Records also show the senator took 23 paid trips from two of the voter registration groups, including Center for Participation in Democracy in 1987 and 1988. He defended them as legitimate expenses incurred on behalf of the groups.

■ **Sept. 20, 1989:** DeConcini says he will return \$55,000 in contributions raised by Keating after the federal government filed a \$1.1 billion civil suit against Keating, his company, family and associates alleging Lincoln money was funneled into their personal, political and charitable causes. Cranston and Glenn say they won't give the money back, because it would be an admission of improper behavior.

■ **Nov. 7, 1989:** In testimony before the House Banking Committee, Gray says Cranston "is the untruthful one in this matter" and contends that Cranston did not tell regulators in 1987 to bring charges against Keating if it could be shown that Keating had done anything criminal. Gray added that Cranston has changed his account of the meeting with regulators, and rejected a claim by Cranston and DeConcini that he had fabricated the story, saying it was "simply not credible." Said Gray: "On the other hand, the fact that this meeting became public knowledge has deeply embarrassed these senators. They have every reason in the world to deny what Sen. DeConcini offered me in that meeting because he was evidently speaking on their behalf."

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Ex-Official Says Cranston Lied About Bid to Aid S&L

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, accused Sen. Alan Cranston (D-Calif.) Tuesday of lying about a 1987 meeting in which four senators allegedly sought to interfere with federal oversight of Lincoln Savings & Loan of Irvine, Calif.

Gray, who headed the bank board until June, 1987, told the House Banking Committee also that the actions of Cranston and the three other senators were "more egregious" than anything former Speaker Jim Wright (D-Tex.) had done on behalf of failing savings and loan institutions in Texas. Wright was forced to resign this year as a result of his alleged unethical behavior, although he was cleared of charges involving his efforts to aid Texas thrifts.

Much of Gray's six hours of testimony focused on an April 2, 1987, meeting in which Cranston and Sens. Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.) and John Glenn (D-Ohio) allegedly asked Gray to withdraw a regulation opposed by Lincoln owner Charles H. Keating Jr. All four senators had previously received big campaign donations from Keating.

At the time of the meeting, Lincoln was under investigation by federal regulators. Gray and other critics contend that the pressure Keating brought to bear on the government during that period caused the bank board to delay federal seizure of Lincoln until last April. During that two-year period, they maintain, Lincoln was able to squander as much as \$2 billion in federally insured deposits.

Gray's anger at Cranston apparently stemmed from the senator's statement on Sept. 28 that the former bank board chairman had "either fabricated or misunderstood what occurred in that room, and I don't know which it is."

"Sen. Alan Cranston said I was either lying or had a bad memory," said Gray in his lengthy prepared testimony. "But, unfortunately, he is the untruthful one in this matter."

Cranston was not available to comment on Gray's accusation, but his press secretary, Murray Flander, denied that the senator had lied. He noted that Cranston has already acknowledged that he did "a pretty stupid thing, politically," by attending the April 2 meeting.

Prior to the meeting, Keating, a prominent Republican, had raised \$47,000 in campaign contributions for Cranston. The senator had also persuaded the Arizona businessman to contribute \$850,000 to voter registration organizations he had founded and \$85,000 to the California Democratic Party.

Cranston has said that he told Gray during the April 2 meeting that the government either should indict Keating for wrongdoing or drop the investigation of Lincoln.

But Gray specifically challenged that statement by Cranston. "This is untruthful," he said. "Cranston said nothing of the kind."

The former bank board chairman cited a series of other quotations from Cranston since last May that, taken together, suggest that the senator over the last six months may have altered his version of what happened at the April 2 meeting.

Originally, Cranston had said he was "astonished" by Gray's contention that DeConcini had asked the bank board chief to withdraw a regulation opposed by Keating. But, more recently, Cranston has said that there "may well have" been some discussion of whether the board should withdraw the regulation restricting direct investments by thrifts in real estate projects.

"Sen. Alan Cranston has changed his story about his attempt to intervene on behalf of Lincoln Savings & Loan," Gray said. After noting that DeConcini also has disagreed with Gray's characterization of the meeting, he added: "... Someone is not telling the truth here."

Cranston has said that he does not recall exactly what DeConcini said during the meeting, according to Flander. But the press secretary acknowledged that Cranston's statements changed slightly after he recently read a transcript of a subsequent meeting on April 9, 1987, in which the four senators,

joined by Sen. Donald W. Riegle Jr. (D-Mich.), met with bank board regulators from San Francisco who were investigating Lincoln.

DeConcini asked for the regulation to be withdrawn at the April 9 meeting, according to the transcript.

Neither Cranston nor any of the other senators who attended the April 2 meeting disagreed with DeConcini's statements, according to Gray. And, although Cranston did not sit through the second meeting, he appeared briefly. The transcript shows that he said: "I just want to say that I share the concerns of the other senators on the subject."

Gray acknowledged that Cranston let his colleagues do most of the talking during the first meeting as well. "Cranston didn't say very much," he said. "Most of his time was spent listening."

House Democrats, who still are nursing painful memories of the ouster of Wright earlier this year, were clearly stunned by Gray's comparison of the senators to the former Speaker. Although Wright departed after the House Ethics Committee found evidence that he had violated certain rules, he actually was cleared of charges stemming from his intervention with the bank board on behalf of Texas thrifts.

"I consider this to be more egregious than the interventions with me by former House Speaker Jim Wright," Gray declared. "No member of Congress ever asked me to withdraw an adopted regulation until that April 2 meeting in Sen. DeConcini's office. Worse yet, it

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was requested by four U.S. senators in private, behind closed doors, according to plan.

"They did not believe this single effort to subvert the regulatory process for their wealthy friend and contributor would ever come to light. They cannot bear to tell the truth about it."

Flander characterized Gray's prepared testimony as a "rambling 10,000-word document of political paranoia" that reflects the former chairman's "feeling that he was the only righteous man that walked on earth" and that Keating was out to get him.

Indeed, Gray acknowledged that he felt uneasy about attending the April 2 meeting. Not only had he been asked to come to DeConcini's office without any staff members, but Lincoln had sued the bank board only two weeks earlier and Keating had tried to "buy" him with a job offer, he said. He said he has since learned that Keating was prepared to pay him \$300,000.

Gray said it was clear to him that the four senators had already "bought off" on a scheme devised by Keating to convince people that regulators were carrying out a "vendetta" against Lincoln because of its reputation as a high-flying thrift with risky investments.

He charged that the money these senators received from Keating "had long since put them in the right frame of mind" to accept the

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idea that the board was carrying out a vendetta against Lincoln.

Cranston has denied that he intervened because of the donations he had received from Keating.

Gray said DeConcini was so indebted to Keating that he even pledged to the Ronald Reagan Administration to vote in favor of assistance to the Nicaraguan rebels in 1986 in exchange for getting a Lincoln stockholder, Lee H. Hinkel, appointed to the bank board.

Gray offered as additional evidence of Keating's efforts to buy influence in Washington the claim that former SEC Commissioner Barbara Thomas had approached his top aide at the bank board in 1987 seeking to learn what evidence federal investigators had against Lincoln.

According to Gray's aide, Shannon Fairbanks, the approach took place at a time when Thomas was being offered a position by Keating on the board of American Continental Corp., the parent company of Lincoln.

Fairbanks said she told Thomas nothing because it would have been illegal to divulge the information, and Gray said he dismissed it as just another improper act by Keating.

Keating has been subpoenaed to testify before the committee later this month, but Chairman Henry B. Gonzalez (D-Tex.) has said he does not intend to take testimony from the senators unless they volunteer to appear. So far, none of the senators have offered to testify.

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Congressman to return \$26,000 donation from Lincoln parent

By Jonathan Lansner
The Register

Rep. Chip Pashayan, R-Fresno, will return \$26,000 in political donations made by people affiliated with Lincoln Savings and Loan's former owner.

Irvine-based Lincoln was taken from American Continental Corp. by federal regulators in April amid charges of widespread mismanagement. The House Banking Committee is looking into whether political influence affected the way Lincoln was handled by regulators.

Pashayan was a supporter of such causes as liberal investment rules for savings and loans and anti-pornography legislation, two favorite topics of American Continental Chairman Charles Keating.

Keating, his family and business associates gave Pashayan \$26,000 for a 1986 campaign.

Pashayan's spokesman said Wednesday that the congressman would be re-

“My election campaigns have never been tainted by improper or illegal donations.”

Rep. Chip Pashayan, R-Fresno

turning the funds shortly.

“My election campaigns have never been tainted by improper or illegal donations,” Pashayan said in a statement. “And while nothing has been proven against Lincoln yet, I am determined to avoid any appearance of impropriety on my part.”

Two other Keating-linked politicians have already returned substantial campaign donations: Sens. Donald Riegle, D-Mich. (\$76,000), and Dennis DeConcini, D-Ariz. (\$40,000).

Sen. Alan Cranston, D-Calif., who also lobbied regulators, has not decided whether to return \$35,000 in Keating-linked donations he received in 1986.

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FBI Probing Senators' Role In Aiding S&L

By Jim McGee
and Charles R. Babcock
Washington Post Staff Writers

The FBI last week began an investigation of the role five senators played in intervening with regulators in 1987 on behalf of controversial Arizona financial executive Charles H. Keating Jr., according to sources who were questioned.

FBI agents interviewed Edwin Gray, former head of the Federal Home Loan Bank Board, and several of his top aides, these sources said, providing the first indication that the Justice Department is inquiring about the conduct of the five senators. An FBI spokesman declined to comment yesterday.

The senators are Dennis DeConcini and John McCain of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald W. Riegle Jr. of Michigan. McCain is a Republican; the others are Democrats.

The Senate ethics committee has asked the senators to respond to complaints that their intervention was "prompted" by \$1.3 million in campaign contributions and corporate funds Keating raised for them and their causes. The senators have said there was nothing improper about their actions.

Four of the senators on April 1987, met alone with Gray, then the government's top savings and

regulator, to question his agency treatment of Keating's Lincoln Savings and Loan of Irvine, Calif. Riegle, who did not attend that meeting, joined the other four at a second meeting a week later with Gray's subordinates.

The Justice Department's decision to pursue an inquiry is unusual in that it touches on a gray ethical area, the actions members of Congress take on behalf of contributors. The question is just how far these actions can go.

For example, in the ethics investigation earlier this year of then House Speaker Jim Wright (D-Tex.), special counsel Richard J. Phelan recommended that Wright's intervention with regulators on behalf of Texas thrifts amounted to a violation of House rules. But the House ethics committee declined to include that count in the charges that led to Wright's resignation, saying that his actions were permissible as constituent service.

The focus of the FBI questioning last week, the sources said, was the first meeting on April 2, 1987. Gray testified to a congressional committee last week that DeConcini asked him at that meeting to ease regulatory pressure on Lincoln and in return Lincoln would modify its lending practices, which regulators considered far too risky. Gray declined to comment yesterday.

Lincoln was declared insolvent and seized by the government in April. Regulators estimate that the failure of the thrift will cost taxpayers up to \$2.5 billion.

DeConcini and the other senators dispute Gray's statement that they sought to negotiate favorable treatment for Lincoln at the April 2, 1987, meeting. DeConcini said its thrust was to express the senators' concerns that an examination of Lincoln's books was taking too long and to "get off their [Lincoln's] backs" if the thrift hadn't violated the law.

The initial questioning that occurred last week is typically used by prosecutors to determine whether there are grounds to present evidence to a grand jury.

One source interviewed by the FBI said that agents referred to certain Federal Election Commission campaign contribution reports filed by some of the senators involved. Another source said, "They [the FBI agents] seemed to be most interested in the senators. Keating and the senators. More questions about meeting with the senators. They seemed to have an extraordinary interest in what the senators were doing."

One source said that several FBI agents who conducted the interviews also attended the recent House Banking Committee hearings on Lincoln.

Spokesmen for Cranston, DeConcini and McCain said yesterday that the FBI hadn't contacted their offices. Cranston and McCain have volunteered to meet with the FBI. Glenn

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Murray S. Elander, Crandon's spokesman said: "Once again, every thing is emanating from the regulators. They are the accusers. How do we know what they're telling us is correct?"

Keating, the subject of a \$1 billion civil fraud and racketeering suit by the government over Lincoln's collapse, has bragged about his political connections. At a press conference in April, Keating said: "One question among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause. I want to say in the most forceful way I can: I certainly hope so."

At the same time the Common Cause organization filed a complaint with the ethics committee, it sent a letter to Gerald E. McDowell, chief of the public integrity section at the Justice Department, asking him to open an investigation of whether Keating's efforts "to influence" the senators violated federal election law or other statutes.

McDowell responded in an Oct. 24 letter that he had received the letter on Keating, "and the circumstances under which five Senators received corporate donations, gifts, and/or campaign contributions from Mr. Keating and his associates. Thank you for referring this information to us and be assured that we will review this information thoroughly."

The central dispute over the April 2, 1987, meeting was whether DeLoach was trying to negotiate a "quid pro quo" for Lincoln as Gray testified to Congress last week. Two of Gray's former assistants, Mary E. Taylor and William Black, said in recent interviews that after the meeting Gray told them a deal to benefit Lincoln had been proposed.

Robert Maynes, DeLoach's spokesman, said yesterday that there was "no quid pro quo offered" to Lincoln at the first meeting. "Nobody offered a deal."

Bradley Boland, a spokesman for Keating, challenged Gray's credibility and blamed his policies for the Lincoln Savings failure. "I agree with a statement I read the other day that Gray should be charged with perjury because he's been sitting out there in front of the committee, to the FBI and everyone else."

(Mount Clipping in Space Below)

SEC Chief Says S&L Regulators Undercut Probe

By Jerry Knight

Washington Post Staff Writer

The chairman of the Securities and Exchange Commission said yesterday that federal savings and loan regulators undercut the SEC's investigation of the owner of Lincoln Savings and Loan, the California thrift whose collapse is expected to cost taxpayers more than \$2.5 billion.

SEC Chairman Richard C. Breeden also accused the accounting firm of Arthur Young & Co. of hampering the SEC investigation of Lincoln's owner, American Continental Corp., by withholding records the agency sought and by marking up other documents with rubber stamps so they were illegible.

And in testimony before the House Banking Committee, Breeden also disclosed that a former SEC commissioner, Barbara Thomas, made a personal appeal to SEC officials last year on behalf of American Continental founder Charles H. Keating Jr.

Thomas received a \$250,000 unsecured personal loan from Lincoln that had unusual repayment terms, said Banking Committee Chairman Henry B. Gonzalez (D-Tex.), while conducting a far-reaching investigation of the Lincoln failure. He did not explain the loan terms or say if the loan was made. Thomas, who left the SEC in 1983, could not be reached for comment yesterday.

Breeden was the latest in a series of witnesses to tell Gonzalez's committee how Keating and Lincoln frustrated regulators who were trying to crack down on the thrift and how highly placed friends of Keating repeatedly sought to use their influence on his behalf.

See LINCOLN, A10, Col. 1

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Besides Thomas, those who have been identified in testimony as aiding Keating include former White House chief of staff Donald T. Regan, now-Federal Reserve Board Chairman Alan Greenspan and five U.S. senators whose ties with Keating are the subject of a preliminary inquiry by the Senate ethics committee and an investigation by the FBI.

The American Banker, an industry newspaper, reported yesterday that Senate Banking Committee Chairman Donald T. Riegle Jr. (D-Mich.) and his top aide, Kevin Gottlieb, met with Keating at his Phoenix headquarters in March 1987 and took a helicopter tour of American Continental projects. That meeting took place two weeks before Keating sponsored a fund-raising event that netted \$76,000 for Riegle and a month before Riegle and four other senators met with regulators to discuss Lincoln's problems. In describing his contacts with Keating, Riegle has not mentioned the visit to American Continental headquarters.

Breeden yesterday became the first SEC official to confirm that the agency, which ordinarily keeps its probes secret, is investigating American Continental and Keating. Breeden, who was the White House point man on the savings and loan crisis before he became SEC chairman a month ago, said that since he arrived at the agency he has "doubled the staff assigned to the case and will double it again if needed."

The agency launched its investigation in January 1987 at the request of the Federal Home Loan Bank Board, which said its examiners had found evidence that real estate transactions on which Lincoln reported \$135 million in profits were phony and were being used to falsely inflate the profits of its parent company, American Continental.

The SEC was well into its investigation of what Breeden called "possible accounting fraud" in May 1988, when the bank board unexpectedly signed a "memorandum of understanding" with Lincoln that settled its investigation of Lincoln by absolving the thrift of any accounting improprieties. That action, Breeden said, "made it much more difficult for us to prove the financials [financial reports] were inaccurate."

Breeden said SEC investigators had been expecting the bank board to demand that Lincoln restate its earnings and throw out the dubious transactions, but instead the thrift agency dropped the whole matter. The bank board action "did not physically interrupt our investigation," said Breeden, but "it did cause us to reassess whether to proceed."

After that reassessment, Breeden added, the SEC decided to continue its investigation of the accuracy of American Continental's report to shareholders. The SEC has yet to take any action against American Continental, but Lincoln was accused of using phony transactions to inflate its profits in a civil lawsuit filed this summer by the Resolution Trust Corp., the new government agency created to clean up the S&L industry.

Bank board officials yesterday disputed Breeden's description of their May 1988 agreement with Lincoln and said it "in no way interfered with the SEC's investigation."

Two weeks ago, officials of the Federal Home Loan Bank of San Francisco complained to the Banking Committee that the same memorandum included a pledge that regulators were not planning to take disciplinary action against Lincoln, which the San Francisco officials said amounted to an unprecedented pledge of immunity for the S&L. The memorandum was described yesterday by Rep. Jim Leach (R-Iowa) as "one of the most egregious documents ever to come out of the federal government."

Leach and Rep. Chalmers Wylie (R-Ohio), the two top Republicans on the panel, also expressed astonishment yesterday at Breeden's disclosure that when the SEC subpoenaed documents from American Continental the papers arrived marred with a stamped 90-word message from the company's accountants, Arthur Young. The stamp made it impossible to read crucial parts of documents, he said, and the papers came with a claim that they were copyrighted and could not be copied by the SEC for use in its investigation.

Disputes with the auditors held up the investigation for several months, said Breeden, who reminded the panel that the SEC has the authority to take disciplinary action against accounting firms that provide services to public companies.

Officials of Arthur Young, now known as Ernst & Young, denied any effort to slow with the SEC inquiry. "We did not stonewall the SEC," said William Gladstone, a co-chief executive. The SEC asked for thousands of documents and "a very, very small number might have had a stamp put in the wrong place," Gladstone said.

Jack D. Atchison, the Arthur Young partner who handled the Lincoln account and later took a \$1 million a year job at American Continental, exercised his Fifth Amendment rights against self-incrimination last week when he was called before the Banking Committee.

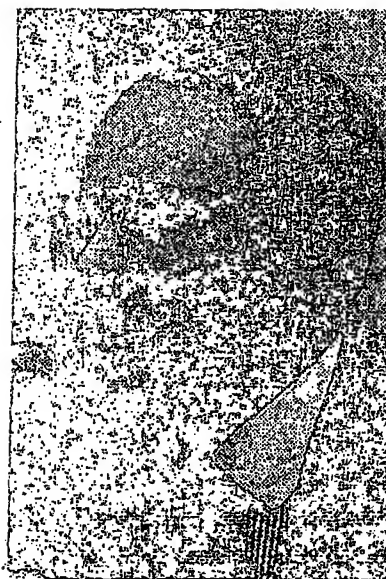
Breeden also surprised the committee by disclosing that former commissioner Thomas called SEC enforcement director Gary Lynch in 1988 to ask about the investigation of Lincoln and volunteered "a favorable character reference" for Keating.

Now an official of Bankers Trust Corp. in New York, Thomas served on the SEC from 1980 to 1983. Before that she was a partner in the law firm of Kaye, Scholer, Fierman, Hayes & Handler, which represents Lincoln.

Thomas also tried to get confidential information about the bank board's investigation of Lincoln from Shannon Fairbanks when she was executive director of the board, Fairbanks testified last week.

Breeden provided few new details of the SEC investigation, but confirmed that the probe is looking into possible securities fraud in the sale of \$250 million in American Continental notes that were sold in the branches of Lincoln and are now worthless.

Four California women—Connie Wickisman, her daughter Frances Rose, Shirley Lampel and Ramona Jacobs—who lost more than \$100,000 on the notes, told the committee yesterday they believed they were investing in federally insured deposits. Lincoln employees steered them into buying the notes, they said.



RICHARD C. BREEDEN

... says he has doubled staff on case



Connie Wicksman testifies as Shirley Lampel and Ramona Jacobs listen during House committee hearing yesterday.

BY JAMES H. W. AHERN—THE WASHINGTON POST

(Mount Clipping in Space Below)

Cranston, 4 senators included in FBI investigation of Keating

By NATHANIEL C. NASH
New York Times News Service

WASHINGTON — The FBI inquiry into possible criminal charges against Charles H. Keating Jr., former head of Lincoln Savings and Loan Association of Irvine, has been expanded to include Keating's dealings with Alan Cranston and four other U.S. senators, government officials said Sunday.

Though the primary focus of the investigation has been in Southern California and Phoenix, headquarters of Lincoln and

its parent holding company, American Continental Corp., the FBI has begun making inquiries into Keating's associations in Washington.

Cranston spokesman Murray Flander told the Associated Press that he was unaware of an FBI investigation and agents had not contacted the senator.

The officials, confirming a report that appeared Sunday in the Washington Post, said that last week Edwin J. Gray, former chairman of the Federal Home

Loan Bank Board, was interviewed by FBI agents about his meetings with senators who knew Keating and had received campaign contributions from him.

The officials also disclosed Sunday that the FBI agents interviewed two former top aides of Gray, Shannon Fairbanks, former bank board chief of staff, and Mary Ellen Taylor, former executive assistant to Gray.

One official said Gray had been interviewed by FBI agents from Washington and a lawyer from the Justice Department.

Gray testified before the House Banking Committee last week that in a meeting with four senators on April 2, 1987, he had been offered a deal.

The four senators are Cranston, D-Calif.; John McCain, R-Ariz.; Dennis DeConcini, D-Ariz.; and John Glenn, D-Ohio. The senators have denied offering any such deal.

Gray also disclosed last week that a fifth Senator, Donald W. Riegle Jr., D-Mich., had initially spoken to him in March 1987, saying that some of his fellow senators were concerned about the bank board's treatment of Lincoln and asking Gray to meet with them.

In exchange for the bank board's not imposing tough restrictions on Lincoln's high-risk investments in commercial-real estates projects,

(Indicate page, name of newspaper, city and state.)

Date: DAILY NEWS
Edition: MON., NOV. 13, 1989
Front Section, Page 1

Title: CRANSTON, 4 SENATORS
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INVESTIGATION OF KEATING

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the savings and loan would agree to move into safer investments, such as single-family mortgages.

All five senators subsequently met with top bank board examiners from San Francisco.

Gray could not be reached by phone, and Mrs. Fairbanks declined to discuss the matter.

It was not clear how seriously the FBI plans to investigate the actions of the senators. Some government officials who asked not to be named said the FBI inquiry into the senators' actions was a predictable de-

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velopment and would have to be part of any thorough investigation.

Keating faces inquiries on many fronts and could be confronted with an array of both civil and criminal charges.

Bank board officials have said that in 1987 they referred Lincoln actions to the Justice Department with accusations that the savings and loan association was back-dating files to make certain transactions seem to have taken place earlier than they actually did.

The agency also accused Lincoln of file stuffing, in which accountants would include fabricated underwriting documents in loan files months and even years after the original loans were made, making it appear that proper underwriting had been done at the time of the transaction.

The U.S. attorney in Los Angeles is also involved in the case with a criminal investigation, and the Securities and Exchange Commission and the Internal Revenue Service are conducting inquiries.

Moreover, Resolution Trust Corp., an agency created in the federal bailout of savings and loans to take over and sell insolvent institutions, has filed a \$1.1 billion civil racketeering suit against Lincoln and Keating.

Keating, through his lawyers, has denied all wrongdoing, and the senators have said that their actions constituted representation of constituents.



Charles H. Keating Jr.
Dealings with senators probed



Alan Cranston
Aide denies FBI contact

LOS ANGELES TIMES
(Indicate page, name of newspaper, city and state.)

~~ORANGE COUNTY REGISTER~~

Date: 11/14/89 Pg D5
Edition: ORANGE COUNTY

Wall Rejects Pressure to Quit as Top S&L Regulator

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—Embattled savings and loan regulator M. Danny Wall refused to resign Monday and said President Bush "wants to hear the other side of the story."

Bush said in an interview published Saturday that he is considering whether to dismiss Wall, who is under fire for his handling of the investigation of Lincoln Savings & Loan in Irvine.

But Wall, after testifying at a congressional hearing Monday, said the President "knows that one is innocent until proven guilty." He said he had acted properly in handling the case of Lincoln, which suffered a financial collapse that may ultimately cost the taxpayers \$2 billion, making it the biggest single thrift failure.

"We knew far less than people think we did," said Wall, who rejected a recommendation by federal regulators in San Francisco in 1987 that the Federal Home Loan Bank Board seize Lincoln then. Instead, the bank board seized Lincoln in April of this year, after its losses had mounted substantially.

"We had insufficient basis to take the actions" sought by the San Francisco regulators, Wall said. He was chairman of the bank board then and is now chairman of its successor agency, the Office of Thrift Supervision.

The Lincoln issue has become politically explosive because of efforts by five senators, including Alan Cranston (D-Calif.), to intervene with federal officials on Lincoln's behalf.

Wall said Monday that Cranston's calls to him in 1987 and 1989 were "perfectly appropriate." In 1987, Wall said, Cranston urged a prompt decision on a pending regulatory

review of Lincoln, and in 1989 Cranston asked for a rapid decision on whether the government would permit the sale of Lincoln to outside investors.

Senate Majority Leader George J. Mitchell (D-Me.) said Monday that the Senate Ethics Committee is conducting a serious inquiry into the actions of the five senators: Cranston, Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio), Dennis DeConcini (D-Ariz.) and John McCain (R-Ariz.).

All five senators received significant campaign contributions from Lincoln's owner, Charles H. Keating Jr., the Arizona financier who controlled Lincoln's parent firm, American Continental Corp. of Phoenix. The inquiry is designed to determine if the panel should conduct a full

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investigation of the five senators with the help of an outside counsel.

"The matter is being investigated," said Mitchell. "The fact that the Ethics Committee does not put out press releases does not mean that it is not investigating the matter very seriously."

All five senators have been asked by the committee to respond to the charges that they improperly influenced the federal regulators' dealings with Lincoln.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), who has been holding hearings into the Lincoln debacle, has said Wall systematically misled the committee about the extent of the nation's failing S&L problem and mishandled his regulatory duties. He has asked the President to fire Wall.

Wall responded Monday that the committee has not yet given him a chance to provide his version of events. "Many questions should be asked and answered in a timely fashion," he said.

Wall is now scheduled to testify to the House Banking Committee next Tuesday. The hearings resume today with the testimony of Securities and Exchange Commission Chairman Richard C. Breeden, who will discuss his agency's inquiries into the activities of Lincoln and American Continental.

Wall's comments Monday followed an appearance before a special House Banking Committee task force that is monitoring the S&L bailout. The hearing dealt with the Resolution Trust Corp., the new agency created to shut down insolvent S&Ls and dispose of their assets such as real estate acquired when borrowers were unable to repay their loans.

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Jan

Senators Face Justice Dept.

Probe of Lincoln Ties

By RONALD J. OSTROW
and JAMES S. GRANELLI
TIMES STAFF WRITERS

WASHINGTON—The Justice Department is weighing whether it should open a preliminary inquiry to determine if five U.S. senators violated federal law by intervening with regulators on behalf of Lincoln Savings & Loan of Irvine, government sources said Tuesday.

The department's public integrity section, a unit of its criminal division, is examining the conduct of the senators in light of federal laws prohibiting bribery and obstructing proceedings before a federal regulatory agency, according to knowledgeable sources.

Department officials traditionally are cautious about even opening a preliminary criminal inquiry involving public officials. Knowledge of such investigations—even if no wrongdoing is eventually established—can be damaging to elected officeholders.

The five senators—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—have been accused by Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, of trying to cut a deal on behalf of Lincoln in 1987.

The alleged intervention occurred two years before regulators seized the troubled thrift, and critics have claimed their involvement may have contributed to the delay. It will cost the government an

estimated \$2 billion to bail out Lincoln, making it the biggest thrift failure ever.

The senators accepted large political contributions from Charles H. Keating Jr., chairman of Lincoln's parent company, before meeting with savings and loan regulators. All five senators have denied trying to make a favorable deal for Keating.

Gray was questioned recently by FBI agents in a session that lasted most of a day, and his allegations constitute the major information under review in the Justice Department.

The former top thrift regulator has said that at one of the 1987 meetings, DeConcini asked him to withdraw a regulation that was hampering Lincoln's non-traditional business investments.

In return, according to information Gray provided the FBI, DeConcini signaled Keating's willingness to put more Lincoln money into traditional home loans.

The public integrity section's interest in the senators came to light as FBI agents

from field offices in Los Angeles, Phoenix and Washington questioned current and former regulators about wide-ranging aspects of Lincoln's activities, according to some of those interviewed.

Mary Ellen Taylor, a former congressional relations director for the bank board, said FBI agents who questioned her last week were "interested in a lot of things, including the senators." She declined to be more specific.

Government sources said a decision to proceed with a preliminary inquiry, which would stop short of taking grand jury testimony, should not be interpreted as an indication that charges are likely to follow.

They noted, for example, the difficulty of distinguishing between providing of "normal constituent services" and illegally obstructing a proceeding before a U.S. agency.

At the same time, the sources said, a preliminary inquiry is likely because the failure to go that far could be seen as not

Please see SENATORS, D6

fully examining suspicious activity by lawmakers. "This is receiving very, very heavy scrutiny," one source familiar with the matter said.

The FBI's inquiry also involves actions by Keating and Lincoln unrelated to the senators.

Agents have questioned William J. Crawford, commissioner of the California Department of Savings and Loan, about allegations that Keating paid some of his executives exorbitant salaries with the understanding that they would contribute a

portion of their pay to political campaigns favored by Keating.

An American Continental spokesman said FBI agents had interviewed more than two dozen former corporate executives to see if they had been expected to contribute to politicians or if they had been subjected to any pressure to make such contributions.

None of the former employees acknowledged being pressured, the spokesman said, citing interviews the company conducted with those who talked to agents.

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Over Half of Lincoln S&L Reported Net Since '84 Said to Be From 'Sham' Deals

By PAULETTE THOMAS

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—More than half of the profits reported by Lincoln Savings & Loan Association since it was acquired by Phoenix, Ariz., financier Charles Keating in 1984 were the result of "sham" transactions that were approved by the accounting firm of Arthur Young & Co., an independent accounting firm said.

Furthermore, Richard Breeden, chairman of the Securities and Exchange Commission, said Arthur Young auditors were

Details on Riegle's Role

New disclosures of Sen. Donald Riegle's involvement with Lincoln Savings clash with his claim that he was a bystander in the affair. Story on page A28.

"very unhelpful, very unforthcoming and very uncooperative in any shape, way or form" during an SEC investigation of alleged securities violations at Lincoln.

The disclosures occurred during the House Banking Committee's fifth day of hearings on the spectacular demise of Lincoln, the costliest thrift failure ever. The S&L was seized by federal regulators in August, and it is expected to cost taxpayers \$2.5 billion to protect depositors.

venthal all involved Lincoln's sales of real estate and related transactions to finance the sales. The deals, mostly involving empty desert in Arizona, were for amounts far above the appraised value of the land, he said, and provided Lincoln with paper profits that were passed up to its parent company, American Continental Corp.

As previously reported, Arthur Young's primary auditor of Lincoln, Jack Atchison, left the accounting firm to work for Mr. Keating at a salary of more than \$900,000 a year. Before leaving Arthur Young, he sent three senators letters saying that Lincoln was a sound institution and that federal regulators were harassing Lincoln executives.

Executives of the accounting firm defended their performance and Mr. Atchison. "Even in view of subsequent events, we have no reason to believe that Mr. Atchison committed any impropriety while he was a partner at Arthur Young," said William Gladstone, co-chief executive officer.

Janice Vincent, regional director for Ernst & Young, said accounting firms aren't auditing to determine the safety and soundness of the firm, as a government examination would. "We audited the statements to see if they complied with generally accepted accounting principles." She said that all of them did.

The hearings have focused on why federal thrift regulators were so slow to seize the thrift and whether five U.S. senators who received substantial campaign contributions from Mr. Keating pressured regulators to go easy on the thrift.

At the hearing, officials of Arthur Young said the firm's audits of Lincoln, covering 1986 and 1987, were "responsibly and professionally done," and they said the firm and Lincoln had agreed to end their relationship. The officials added that they were restricted by Arizona law from releasing some information requested by the SEC.

A representative of Kenneth Leventhal & Co., Newport Beach, Calif., said Lincoln recognized \$135 million in gains from 15 transactions that had been approved by Arthur Young, which has merged with Ernst & Whinney and is now called Ernst & Young. Lincoln's pretax profit since 1984 totaled \$238.6 million.

"The transactions we analyzed were accounting-driven 'deals' created for the appearance of profits," said Roger Johnson, a partner in the firm, which has been retained by the federal agencies involved in the conservatorship of Lincoln.

Although the firm didn't analyze all of Lincoln's financial statements, the 15 transactions examined by Kenneth Le-

Several committee members were appalled that the accounting principles appeared to be adhered to in form only. "I am stunned as I look at these transactions," said Rep. Jim Leach, (R., Iowa).

"I am no accountant, but you would have to bend over backward to say that these deals were okay," said Rep. Charles Schumer (D., N.Y.).

Other allegations of influence-peddling by Mr. Keating emerged in the hearing. Mr. Breeden said Barbara Thomas, a former SEC commissioner appointed by President Carter, had called the SEC to act as a "character witness" for Mr. Keating during the SEC's investigation. Henry Gonzalez, chairman of the banking committee, said his staff's investigation showed that Ms. Thomas has received a \$250,000 loan from Mr. Keating with "unusual payback provisos," including delayed payment of interest. Ms. Thomas couldn't be reached for comment.

Mr. Breeden also said he is doubling the commission's staff investigating possible securities fraud at Lincoln, based in Irvine, Calif., and American Continental based in Phoenix. He declined to disclose the status of the inquiry or how many members had been assigned to it.

(Indicate page, name of newspaper, city and state.)

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Also during the hearing, the committee heard from four investors who acquired subordinated debt of American Continental at Lincoln's offices. All said they were under the impression—and testified of being told explicitly—that they were purchasing federally insured certificates of deposit. Roughly \$300 million of the bonds were sold, and all have been relegated to the unsecured creditors in American Continental's bankruptcy-law case. The company filed for bankruptcy-law protection from creditors in August.

"We were targeted, and we fell for it," said Shirley Lampel, a retired widow. More than half of the holders of the bonds were over age 60.

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At Garn Institute, S&L Executives Get To Rub Shoulders With U.S. Regulators

By PAULETTE THOMAS

Staff Reporter of THE WALL STREET JOURNAL

KEY LARGO, Fla.—While the ethics spotlight is glaring on five U.S. senators caught up in the burgeoning Lincoln Savings & Loan Association scandal, Sen. Jake Garn of Utah is quietly taking part in a subtle form of influence peddling.

The Garn Institute of Finance, established as a think tank, has also become a magnet for S&L money and schmoozing—not to mention a political power base and rare memorial to a sitting U.S. senator. Founded at the University of Utah three years ago, it has amassed more than \$2.5 million from the industry, all the while giving industry executives access to congressmen, Capitol Hill staff members and regulators.

The Garn Institute's activities, for the most part, are conducted in the open. No one suggests that Sen. Garn or the institute has tried to protect contributors from regulators, as the five other senators are alleged to have done in connection with Lincoln and with its chairman, Charles Keating Jr.

Mr. Garn, the ranking Republican on the Senate Banking Committee, says he doesn't even know who contributes the money, even though the contributors are listed on the institute's official literature. "I don't sit down and read that stuff," he says. He adds that the extent of his involvement is fund-raising in a "general way" in the course of giving speeches on behalf of the institute. He doesn't profit from it, he says.

The institute makes little secret of its matchmaker roles between regulators and the regulated. Contributors to the institute are entitled to "take part in one-on-one discussions with government policy-makers and other leaders," according to the institute's official literature.

That up-close-and-personal access to leading government officials was evident during a recent three-day conference in the sun and surf here. Thrift owners, managers and lawyers, all paying their own way, hobnobbed in conference rooms, bars and on golf courses with government officials, many flown in, housed and fed as "fellows" on the institute's tab.



Sen. Jake Garn

In the outside world, confusion is rampant over the kinds of bailouts and asset sales the government will be conducting. But alumni of the Garn weekend got more than two hours of briefings from William Roelle, for instance, who is presiding over billions of dollars in sales of sick thrifts as an official of the newly created Resolution Trust Corp. Better still, industry brokers and lobbyists from Washington to Wall Street got the chance to state views on policies that will vitally affect their clients.

For a briefing called "Mortgage Markets in the 1990s," what could be better than listening to the top officials of Freddie Mac (the Federal Home Loan Mortgage Corp.) and Fannie Mae (the Federal National Mortgage Association), the leading mortgage underwriters in the U.S.

Some presentations are strictly for paying attendees. Press coverage is far from encouraged; some sessions are specifically proclaimed to be "off the record," for the benefit of paying guests only.

Last March, the institute threw a \$500 a plate fund-raising dinner, attended by Richard Breeden, now the Securities and Exchange Commission chairman, who was then the White House point man on the S&L bailout. Also attending was Kevin Gottlieb, the influential chief of staff of the Senate Banking Committee. Dozens of industry officials and lobbyists bought plates, happily getting the ears of the officials determining the course of the landmark S&L law, the biggest financial overhaul since the 1930s.

Participation in Garn Institute functions is open to contributors, of which the institute has many from the thrift industry. They include Thomas Spiegel, chief executive officer of junk-bond thrift Columbia Savings of Beverly Hills, Calif., who has contributed \$100,000 and who sits on the institute's board of trustees. There's also David Paul, chairman of Centrust Savings Bank of Miami, which was recently forced by Florida banking regulators to sell its \$28 million Old Masters art collection.

Thomas Vartanian, a former counsel to the Federal Home Loan Bank Board who has earned millions getting transactions approved by the regulators, is vice chairman of the institute's board; his firm—Fried, Frank Harris, Shriver & Jacobson—has also contributed more than \$100,000. Drexel Burnham Lambert Inc., which recently pleaded guilty to violating securities laws, is another \$100,000 donor.

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pg. A16

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Mr. Keating, who presided over the costliest thrift failure ever, has contributed at least \$25,000. Unlike most industry executives, he openly acknowledges that he contributes to such causes because he wants to exert influence.

None of this means that contributors get what they want. Indeed, far from being influenced by Mr. Keating's donation to the institute, Sen. Garn opposed a candidate to the Bank Board Mr. Keating backed and instead saw to it that his own former staff director, Danny Wall, was appointed.

Even this year's gathering at the Ocean Reef club here was far more somber than a year ago, when participants were consumed with the then-pending S&L bailout bill. At the final session last year, Mr. Vartanian, the industry attorney, wound up the conference entreating members for greater financial support. This year, by contrast, Richard Pratt, a former thrift regulator who is now chairman of Merrill Lynch Mortgage Capital Inc., closed the proceedings by asking attendees only for their "intellectual support."

"I think we are, perhaps properly, in a period of maximum anger and frustration within the industry, within Congress, within the administration," Mr. Pratt said. "I thought it was more appropriate to ask for moral support and intellectual support at this moment."

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WALL STREET JOURNAL
Pg A28

(Mount Clipping in Space Below)

New Disclosures of Riegle's Lincoln Role Suggest He Was More Than a Bystander

By BROOKS JACKSON

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—New details of Senate Banking Committee Chairman Donald Riegle's involvement with Lincoln Savings & Loan Association emerged, clashing with his claim that he was a bystander in the affair.

The latest disclosure is that the Michigan Democrat took a helicopter tour of the highflying thrift's Arizona real-estate empire in 1987—remarking, "I like what I see here"—around the time he was getting a briefing on Lincoln's grievances and discussing the case with regulators. It also has come to light that the senator last month denied to the Senate Ethics Committee that he initiated any contact with

federal regulators, a statement that seems to conflict with recent testimony.

Both the Senate Ethics Committee and the Justice Department are looking into complaints that Sen. Riegle and four other senators may have acted improperly in 1987 by pressing Lincoln's case with regulators who were trying to rein in what they viewed as Lincoln's wild speculation.

Lincoln stayed open for two more years but ultimately collapsed in what may be the most expensive S&L failure to date, with losses estimated as high as \$2.5 billion. Its principal owner, Charles Keating, arranged \$1.4 million in political donations for the five senators. That included \$76,100 for Sen. Riegle's 1988 re-election campaign, money he returned last year after it drew unfavorable publicity.

Sen. Riegle has portrayed himself as a bit player in the Lincoln affair, claiming that the other four senators invited him to a single meeting with thrift examiners because of his banking expertise. Indeed, he wrote to the Ethics Committee on Oct. 18, saying, "At no time did I ever initiate any contact with the regulators concerning Lincoln."

But Sen. Riegle had discussed Lincoln with Edwin Gray, then chairman of the Federal Home Loan Bank Board, on March 6, 1987, just before the senator's visit to Phoenix. Mr. Riegle last week issued a statement conceding the fact of the meeting after Mr. Gray testified in House Banking Committee hearings that Sen. Riegle was the first to contact him about Lincoln.

Yesterday, Mr. Riegle's office refused to furnish a copy of the letter to the Ethics Committee, but the Detroit News supplied a copy that the senator had provided. A Riegle aide declined to comment when asked to explain the apparent conflict between Mr. Gray's testimony and the denial in the senator's letter.

The senator issued a statement confirming his 1987 visit to the Phoenix headquarters of Lincoln's parent, American Continental Corp. The incident was disclosed by the American Banker, which also portrayed the senator as expressing an intent to deal with Mr. Gray about Lincoln's controversial real-estate holdings. Quoting an unnamed Lincoln official, the newspaper said Sen. Riegle remarked, "I like what I see here. I can reason with Ed Gray." At the time, thrift examiners were disputing the valuation of some of the properties by Lincoln, based in Irvine, Calif.

A Riegle aide wouldn't confirm or deny that he had made the remark, but a spokesman for American Continental gave at least partial confirmation: "It's my understanding that Riegle's comments went like this: 'I have a background as an economist. I understand what I see, and I like what I see here.' " The spokesman, Bradley Boland, said he couldn't confirm that Sen. Riegle spoke of reasoning with Mr. Gray, but said, "I bet he did."

Sen. Riegle now confirms that he met on Feb. 26, 1987, with an American Continental official and with Lincoln's outside auditor, Jack Atchison, then with the Arthur Young accounting firm, to discuss the S&L's bitter dispute with federal regulators. Mr. Gray testified that on March 6 the senator told him that "the senators out in Arizona were quite concerned about the Bank Board's regulation of Lincoln Savings. He said he thought it would be a good idea for me to go and talk with them."

On April 2, Mr. Gray met alone with the four other senators, Dennis DeConcini (D., Ariz.), John McCain (R., Ariz.), Alan Cranston (D., Calif.) and John Glenn (D., Ohio). And on April 9, the five senators met with examiners from San Francisco, who told them that Lincoln was "a ticking time bomb" and that the examiners had asked the FBI to investigate indications that documents had been fabricated. Sen. Riegle says that after that he didn't have any further contact with regulators about Lincoln.

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(Mount Clipping in Space Below)

Justice Dept. Weighs Probing Senators' Lincoln S&L Ties

By RONALD J. OSTROW
and JAMES S. GRANELLI
TIMES STAFF WRITERS

WASHINGTON—The Justice Department is weighing whether it should open a preliminary inquiry to determine if five U.S. senators violated federal law by intervening with regulators on behalf of Lincoln Savings & Loan of Irvine, government sources said Tuesday.

The department's public integrity section, a unit of its criminal division, is examining the conduct of the senators in light of federal laws prohibiting bribery and obstructing proceedings before a federal regulatory agency, according to knowledgeable sources.

Department officials traditionally are cautious about even opening a preliminary criminal inquiry in-

volving public officials. Knowledge of such investigations—even if no wrongdoing is eventually established—can be damaging to elected officeholders.

The five senators—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—have been accused by Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, of trying to cut a deal on behalf of Lincoln in 1987.

The alleged intervention occurred two years before regulators seized the troubled thrift, and critics have claimed their involvement may have contributed to the delay. It will cost the government an estimated \$2 billion to bail out Lincoln, making it the biggest

thrift failure ever.

The senators accepted large political contributions from Charles H. Keating Jr., chairman of Lincoln's parent company, before meeting with savings and loan regulators. All five senators have denied trying to make a favorable deal for Keating.

Gray was questioned recently by FBI agents in a session that lasted most of a day, and his allegations constitute the major information under review in the Justice Department.

The former top thrift regulator has said that at one of the 1987 meetings, DeConcini asked him to withdraw a regulation that was hampering Lincoln's non-traditional business investments.

In return, according to information Gray provided the FBI, De-

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Date: WED., NOV. 15, 1989
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PROBING SENATORS' LINCOLN
S&L TIES

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Concini signaled Keating's willingness to put more Lincoln money into traditional home loans.

The public integrity section's interest in the senators came to light as FBI agents from field offices in Los Angeles, Phoenix and Washington questioned current and former regulators about wide-ranging aspects of Lincoln's activities, according to some of those interviewed.

Mary Ellen Taylor, a former congressional relations director for the bank board, said FBI agents who questioned her last week were "interested in a lot of things, including the senators." She declined to be more specific.

Government sources said a decision to proceed with a preliminary inquiry, which would stop short of taking grand jury testimony, should not be interpreted as an indication that charges are likely to follow.

They noted, for example, the difficulty of distinguishing between providing of "normal constituent services" and illegally obstructing a proceeding before a U.S. agency.

At the same time, the sources said, a preliminary inquiry is likely because the failure to go that far could be seen as not fully examining suspicious activity by lawmakers. "This is receiving very, very heavy scrutiny," one source familiar with the matter said.

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State Legislature's role in S&L scandal needs examination

State legislative committees are conducting their usual quota of "interim hearings" while the Legislature is in recess, mostly dealing with relative trivia.

There is, however, a need for legislative examination of one urgent issue:

The role that state officials played in the collapse of Lincoln Savings and Loan, the biggest U.S. thrift failure and one fraught with official malfeasance.

The House Banking Committee is doing an admirable job of delving into the Lincoln mess in a series of Washington hearings.

But, understandably, those hearings concentrate on federal regulators and influence from a quartet of U.S. senators, including Alan Cranston, D-Calif.

California legislative banking committees have dipped into the Lincoln mess only cautiously.

They should move more boldly into the affair while memories are fresh and witnesses are willing, exploring what state savings-and-loan and corporate regulators did and didn't do during the critical months preceding Lincoln's collapse.

Lincoln's owner, Charles Keating, contributed heavily to state Republican Party treasuries and the campaign fund of George Deukmejian, governor of California.

His interests were being represented before state regulators by Karl Samuelian, who was Deukmejian's friend, political adviser and chief political fund-raiser.

Specifically, legislative committees should examine these areas:

— Passage in 1982 of Lincoln-sponsored legislation that loosened investment authority on state-chartered institutions.

The legislation was carried by Assemblyman Patrick Nolan, R-Glendale.

— The successful effort by Nolan and others in 1985 to block state regulators' plans to curtail risky lending practices that had been authorized by Nolan's bill.

Nolan has received heavy campaign contributions from Lincoln and its parent company, American Continental Corp.

— Actions by Lawrence Taggart, Deukmejian's former savings and loan commissioner.

Taggart has testified that in 1984 he gave Lincoln permission to shift \$800 million in assets to subsidiary firms, three days before a federal regulation would have barred such a move.

At the time he made that decision, Taggart had already accepted a job with TCS Financial, a San Diego investment firm that subsequently received an infusion of nearly \$3 million cash from Lincoln.

Corporate records say Taggart was already a director of TCS when he made the decision favorable to Lincoln.

The firm, which was undergoing financial difficulties when it received the Lincoln money, is headed by Thomas Stickel, a prominent Republican fund-raiser.

— The role that Samuelian played in inhibiting state regulation of Lincoln and its subsidiary operations.

Samuelian personally represented Keating and American Continental in March 1988 as they sought state Department of Corporations approval for selling unsecured, uninsured junk bonds through Lincoln.

Those bonds became worthless when the firms declared bankruptcy.

Samuelian made his pitch for approval of the bonds — which were cleared — to Christine Bender, the California state corporations commissioner, who had been a member of the Samuelian law firm.

She had succeeded Franklin Tom, who had returned to a position with the Samuelian firm and who also represented Keating's interests before Bender.

(Indicate page, name of newspaper, city and state.)

DAILY BREEZE
TORRANCE, CA

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IN S&L SCANDAL NEEDS
EXAMINATION

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In approving the bonds, Bender ignored a staff warning about their financial viability.

— What occurred two years ago when Samuelian interceded with the state Department of Savings and Loan as the agency was planning to impose a strict limit on Lincoln's high-flying real estate investments.

S&L Commissioner William Crawford says he withdrew the investment-restriction order after the firm, through Samuelian, promised to voluntarily cut back on the risky investments — a promise it failed to keep. Had the order been issued, the scale of Lincoln's losses would have been much smaller.

Samuelian and a Lincoln executive met with Crawford in late 1987 to temper the order.

A 1988 Federal Home Loan Bank Board memo, outlining Lincoln's failure to comply with its promise, noted that Lincoln's legal counsel was a top political adviser to Deukmejian and said that before Crawford's order was withdrawn in favor of the promise, "Lincoln attempted to get the commissioner and his top aide fired."

The Lincoln business stinks, and the California state Legislature has an obligation to get to the bottom of it.

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JAN 2	
FBI — LOS ANGELES	

101

Keating Pressured State Officials to Lay Off, Memo Says

By PAUL JACOBS
and RALPH FRAMMOLINO
TIMES STAFF WRITERS

SACRAMENTO—Complaining that California regulators were being too tough, Charles H. Keating Jr. personally met several times from 1985 to 1988 with top Deukmejian Administration regulators in an attempt to get them to ease up on his faltering thrift, Lincoln Savings & Loan.

The meetings were part of a campaign by Keating and his associates to exert pressure on state officials at a time when state regulators were trying to clamp down on Lincoln's high-risk investments and federal officials were taking the first tentative steps toward an eventual takeover of the savings and loan.

When Keating failed to get his way in Sacramento, Lincoln tried to get the state savings and loan commissioner and his top deputy fired, according to a February, 1988, memo prepared by the Federal Home Loan Bank Board's San Francisco office.

"We just felt the heat at the back of our necks," state Savings and Loan Commissioner William J. Crawford said on Thursday, referring to his meetings with Keating. But Crawford said he had no knowledge of attempts to fire him.

Keating also sent the governor's top fund-raiser, Los Angeles attorney Karl

Samuelian, to meet with Crawford in early 1987 "to lobby on behalf of Lincoln," according to the memo. Samuelian was hired to represent both Lincoln and its parent company, American Continental Corp. The meeting occurred shortly after Deukmejian's successful 1986 reelection campaign, to which Keating and his associates contributed nearly \$200,000.

The governor has previously said that he met Keating only once, at a luncheon during the campaign. Deukmejian said he had no knowledge of what Keating was seeking from state regulators.

Deukmejian's press secretary, Kevin Brett, said Thursday that neither Keating nor Samuelian met with the governor's personal staff to discuss Lincoln's difficulties. Brett said he was not aware of any effort by Lincoln officials to have Crawford fired. "If there were, it was obviously unsuccessful, because Bill Crawford is on the job."

Keating, a blunt-talking Arizona business executive, was chairman of Lincoln's parent company, American Continental, which declared bankruptcy in April of this year. The day after the collapse of American Continental, federal regulators took control of Lincoln—an action that may cost the nation's taxpayers more than \$2 billion, the largest bailout ever of a savings and loan.

Despite the objections of Crawford and his staff, the State Department of Corporations approved the sale of more than \$200 million in high-risk bonds by American Continental. The bonds were sold through Lincoln branches to about 22,000 individuals, many of them retirees who now stand to lose all their investments.

In addition to the sale of bonds, Crawford said on Thursday that he was concerned with Lincoln's heavy reliance on land purchases and other risky investments almost from his first day in office. Within

months of taking over the post in February, 1985, Crawford said he had his first of three or four meetings with the Arizona-based financier.

In those meetings, Keating argued against plans by Crawford and his top deputy, William D. Davis, to limit the thrift's reliance on shaky investments, the regulators said. The state officials, who are based in Los Angeles, eventually began to question the value and profitability of many of Lincoln's holdings.

"Keating knew what our attitude was and started appealing to Sacramento," Davis said.

In February and March of 1988, Keating met with Crawford's boss—state Business, Transportation and Housing Secretary John K. Geoghegan.

"Keating was complaining about overzealous regulators," Geoghegan said in an interview. "Crawford was pushing him back. Keating was asking us to approve all his future deals. . . . He wasn't a guy who belonged in a regulated industry, because he didn't like people telling him what to do."

(Indicate page, name of newspaper, city and state.)

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Geoghegan said he did nothing to interfere with the regulators. "First, we don't have the power to do anything about a decision [by the regulators] and secondly, it's my philosophy not to interfere."

The meetings with Geoghegan followed an October, 1987, Crawford directive ordering Lincoln to "refrain from future investments in land and land loans and . . . refrain from future construction loans in excess of \$500,000," according to the Federal Home Loan Bank Board memo.

After Lincoln formally agreed to comply with the restrictions, Crawford said, the directive was withdrawn, Crawford said.

Crawford's attempts to harness Lincoln angered the thrift's officials. "After the California Commissioner [Crawford] imposed a directive on Lincoln, Lincoln attempted to get the Commissioner and his top aide fired," the federal memo said.

The federal official who drafted the memo, the bank board's San Francisco supervisory agent, J.M. Cirona, refused to elaborate on the allegation Thursday.

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Keating, associates fired from Phoenix jobs

By Lisa Morrell and Andy Hall
Arizona Republic

PHOENIX — Before dawn Thursday, more than 50 federal thrift managers, FBI agents and private security guards ousted Charles H. Keating Jr.'s regime from their "haven of peace" at The Phoenician resort and the Crescent Hotel.

The action by the Federal Deposit Insurance Corp. broke Keating's last hold on his Lincoln Savings and Loan, which regulators seized in April. A Lincoln subsidiary owns a majority stake in the hotels.

In other action:

■ It was reported that Sen. Alan Cranston's top banking-affairs aide took a trip partly paid for by Keating within a week after Cranston first interceded with federal regulators on behalf of Lincoln.

■ The federal savings-and-loan regulators accused of delaying Lincoln's takeover for two years struck back at the nation's top securities regulator, who criticized their handling of the collapse.

Keating and 23 employees were fired from their jobs at The Phoenician resort, a 605-room golf, tennis and spa complex sunk into Camelback Mountain in Phoenix, and from the 344-room Crescent Hotel in north Phoenix. The hotels employ about 1,500 people.

A. Melvin McDonald, an attorney for American Continental, said Keating spent many of his days at The Phoenician, working on business matters. He said the loss of the hotels would hurt Keating.

"There's no question that was his life," McDonald said. "He loved that resort. That was to him and his family a haven of peace. It was a culmination of a dream. Every feature, every touch there, embodied their creativity."

McDonald lambasted the federal officials' tactics. "Rather than go like gentlemen in the middle of the day, they went like storm troopers in the middle of the night."

"It was literally a coup d'etat."

The fired employees included Keating's wife, Mary Elaine Keating, two daughters and two sons-in-law.

Keating drew no salary as manager of the Phoenician, but he continues to receive a \$500,000-a-year salary as chairman of American Continental Corp. of Phoenix, Lincoln's former owner. He is scheduled to testify Tuesday before the House Banking Committee in its investigation of the \$2 billion collapse of Lincoln.

After Keating's Kuwaiti partners in the hotels agreed to the management coup, about a dozen federal officials and more than 40 support personnel entered The Phoenician at 1:30 a.m. Thursday.

They sealed off "sensitive" areas, such as the control room for computer operations and the executive offices, said Herbert Chin, a government official who is overseeing the management change. Locks were changed on the office doors, including those of fired employees.

Messengers delivered letters to the homes of the fired employees at about 2 a.m. Thursday, telling them they no longer had jobs. The employees were Keating family members or transplanted American Continental workers who "are not professional hotel people," Chin said.

Mark Randall, managing agent for the FDIC which oversees Lincoln, said the timing was chosen because "both hotels are full and our primary concern in doing this was to minimize disruption to the patrons of the hotel."

Meanwhile, Knight-Ridder Newspapers reported that Cranston aide Carolyn D. Jordan took a trip partly paid for by Keating within a week after the senator first contacted federal regulators in 1987 on Lincoln's behalf.

In March, Jordan said urged California Savings and Loan Commissioner William Crawford to support Keating's last-ditch proposal to sell Lincoln, according to state

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officials.

The Senate ethics committee and the Justice Department are reportedly ready to open a formal investigation of the actions of Cranston and four other senators who met with regulators on Keating's behalf. Keating generated about \$1.4 million in contributions to the senators and their favorite causes.

The other senators involved are Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; John McCain, R-Ariz.; and John Glenn, D-Ohio.

Jordan's 1987 trip from Washington to Phoenix was taken with Cranston's approval, the senator said through a spokesman.

The timing of the trip followed almost immediately the beginning of what became a two-year campaign of lobbying federal regulators by Cranston on Keating's behalf.

Jordan said her trip was arranged by James Grogan, a former aide to Glenn, who has served as Keating's top lobbyist on Capitol Hill. It was Grogan who delivered \$200,000 from Keating's corporation to a campaign fund controlled by Glenn.

Records filed by Jordan last year with the Senate ethics committee show the lodging for her eight-day trip was paid by Keating's American Continental Corp. — the parent firm of his S&L.

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JAN 21	
FBI - LOS ANGELES	

Jeff

Ethics Panel to Conduct Cranston Investigation

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—The Senate Ethics Committee will appoint an outside counsel to investigate allegations of influence peddling against Sen. Alan Cranston (D-Calif.) and four other senators who

loan after receiving campaign donations from the owner of the Irvine thrift, sources said Thursday.

The panel is believed to have settled on Robert S. Bennett, a Washington attorney who specializes in white-collar crime, to head the investigation of charges filed against the five senators by Common Cause, the citizens' lobby.

The other four senators are Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.).

Bennett, 50, is expected to meet with the committee members today to make final plans for the

■ KEATING OUSTED

Regulators ousted Charles H. Keating Jr. from the management of two Arizona hotels. D5

inquiry. He has served as special counsel in two previous investigations of senators—the 1981 probe of then-Sen. Harrison H. Williams (D-N.J.) and a pending inquiry into the book-publishing activities of Sen. Dave Durenberger (D-Minn.). He is the older brother of William J. Bennett, director of the White House Office of Drug Con-

Control Policy.

Born in Brooklyn, N.Y., Bennett received a law degree from Georgetown University and a master's degree in law from Harvard. He represented Boeing Co. earlier this week when it pleaded guilty to two felony charges of trafficking in secret Pentagon planning documents.

The Senate Ethics Committee's decision to conduct a full-blown investigation headed by an outside counsel is a major setback for Cranston, who had hoped that the charges against him would simply be dismissed on the basis of the legal defense that he had filed with the committee Thursday.

le counsel to be appointed over influence peddling by senators.

Cranston, who is assistant majority leader of the Senate and has served in the chamber 21 years, is accused of intervening improperly in 1987 along with the four other senators in an investigation by federal regulators of Lincoln. The Irvine thrift is owned by Charles H. Keating Jr., who had contributed about \$1.3 million to campaigns and other causes supported by the senators.

On Thursday, Cranston's aides acknowledged for the first time that the senator's top adviser on banking matters, Carolyn D. Jordan, took a trip paid for partly by Lincoln a week after the senator first intervened for the thrift. Jordan also lobbied California Savings and Loan Commissioner William J. Crawford on behalf of Lincoln.

But in a letter and a 16-page legal brief filed with the Ethics Committee, Cranston insisted that he did nothing illegal or improper when he, along with the four other senators, contacted federal regulators on behalf of Keating.

He also denied that his actions were in any way responsible for an estimated \$2 billion in losses to the federal government caused by the collapse of Lincoln or for the personal financial losses suffered by 24,000 people—many of them elderly Californians—who invested in uninsured junk bonds sold at Lincoln branch offices. The bonds are now worthless.

"I am not responsible for loss of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors," Cranston said.

He said that his efforts on Lincoln's behalf never exceeded what a member of Congress can legally do for a constituent who is at odds with the government. Nor, he said, did Keating have any reason to believe that the senator was paying off a debt to him for his campaign donations.

Cranston noted that he never benefitted personally from Keating's largess, which would have violated the law.

(Indicate page, name of newspaper, city and state.)

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Although Cranston was responding officially to charges of influence peddling pending before the Senate committee, the 16-page document written by his attorney, William W. Taylor III, focused heavily on allegations that have arisen in recent House Banking, Finance and Urban Affairs Committee hearings into the Lincoln affair.

In fact, he devoted 3½ pages of his legal brief to disputing a charge by Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, that Cranston's efforts on behalf of Keating were "worse than anything Jim Wright did." Former Speaker Wright was forced to resign from Congress earlier this year after a year-long investigation in which he was found to have violated House ethics rules.

One of the charges against Wright was that he intervened improperly with the bank board, which supervised savings and loans, on behalf of the owners of several Texas thrifts. Wright eventually was cleared of any ethics violations involving the thrifts.

Even so, Gray said that Wright's

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

alleged intervention was comparable to Gray's meeting in April, 1987, with Cranston and three others senators who were seeking better treatment by the regulators for Keating.

"Sen. Cranston's alleged 'intervention' with Chairman Gray is not even remotely comparable to that for which the committee exonerated the Speaker," Taylor wrote.

He noted that Wright had been accused of seeking "specific regulatory results" from the bank board, of trying to get rid of a regulator on grounds he was homosexual, of trying to arrange

special deals for constituents and of trying to delay the seizure of an insolvent savings and loan.

Although the charges against Wright were much more serious than those against Cranston, he added, they were dismissed by the House Ethics Committee on grounds that a member of Congress has a right to intervene in such matters.

Indeed, Cranston's attorney cited the decision in the Wright case as proof that his client did nothing illegal or improper by asking the bank board to expedite the investigation of Lincoln, which claimed

that it was being harassed by the regulators. He said that Cranston would still be innocent even if he had specifically asked the bank board to go easy on Lincoln.

He cited a Supreme Court decision saying that it is within the rightful duties of a senator to "cajole and exhort" the executive branch regarding the enforcement of laws.

To underscore this point, Cranston listed three occasions on which he had intervened with federal agencies on matters involving immigration, the Legal Services Corp. and the semicon-

ductor industry. In only one of the three cases did he receive campaign contributions from the interested parties, he said.

"The fact that a constituent who requests a senator's help is subsequently accused or indeed convicted of violations of the law does not suggest that a senator acted improperly," he wrote.

Cranston's legal brief also disputed the testimony of three elderly California women before the House Banking Committee earlier this week. The three had said that they held Cranston personally responsible for the loss of their life savings as a result of investments in bonds issued by Lincoln's parent company, American Continental Corp.

He noted that even Gray, whom he called a "discredited former bureaucrat," acknowledged in testimony before the House committee that the actions of the five senators did nothing to deter him from investigating Lincoln.

Although Cranston received \$35,000 in campaign contributions raised by Keating and solicited an additional \$850,000 from him for voter registration organizations, there is no evidence that he pocketed any money.

"When it is all said and done," Taylor's brief concluded, "the critical and undisputed fact is that Sen. Cranston received no personal gain from Charles Keating or any organization he owned or controlled."

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JAN 20 1964			
FBI — LOS ANGELES			

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(Mount Clipping in Space Below)

KEATING

The man behind Lincoln Savings

By Nathaniel C. Nash
and Philip Shenon

THE NEW YORK TIMES

WASHINGTON — To his critics, Charles H. Keating Jr., the Phoenix financier who built and lost the Lincoln Savings and Loan Association, represents all that is wrong with a political system in which wealth grants access and influence.

To his defenders, Keating is simply a hard-driving entrepreneur who is being made the fall guy for the savings industry's plight.

But there is no dispute that Keating has become the central figure in the savings and loan crisis, a breakdown stemming from lax regulation and speculative excess.

The federal bailout of the industry will cost taxpayers more than \$100 billion over the next decade.

Lincoln's collapse alone will cost at least \$2 billion.

Keating has never minced words about using political influence in defense of his financial interests.

"One question, among many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," he told reporters in April.

He spoke after federal regulators had taken over Lincoln, with its \$6 billion in insured deposits, almost \$4 billion of which went to speculative investments in real estate and junk bonds.

"I want to say in the most forceful way I can: I certainly hope so."

Keating has become the central figure in an unfolding Capitol Hill drama in which he stands accused of fraud and making illegal loans.

And members of Congress, many of whom have been the recipients of his largess, are left deeply embarrassed.

From inquiries by the committee and by federal and state regulators into Keating's dealings, from an interview last summer with Keating (he declined, through a lawyer, to be interviewed for this story) and from the accounts of both friend and foe, an intricate picture emerges of the man and his

For his part, Keating proclaims his innocence, denying any wrongdoing, saying that if you do not have money, your chances of being heard are greatly reduced.

Influence is the way the political system works, and he intends to use it, he says.

Yes, he agrees, enormous losses are imbedded in Lincoln.

But if regulators had permitted him to continue to operate the savings and loan, he could have earned his way out of the hole, he says.

By all accounts, he was a frenetic and effective advocate for his business interests — here distributing campaign funds, there offering a former chairman of the Federal Home Loan Bank Board a job or pushing the Reagan administration to appoint one of his business associates to the bank board.

Keating was over a period of years almost a ubiquitous presence in Washington and at the state and local level.

Regulators maintain that the contributions came almost entirely from the federally insured deposits of Lincoln Savings.

They have accused him of literally looting Lincoln for his own personal gain and have referred the case to the Justice Department for a possible criminal investigation.

Separate inquiries

The Securities and Exchange Commission, the Internal Revenue Service and the FBI are also conducting inquiries.

And though in the end the

(Indicate page, name of newspaper, city and state.)

DAILY BREEZE
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whom Keating had contributed \$1.3 million did not halt the government takeover of Lincoln Savings on the morning of April 14, his contributions were successful in delaying the process almost two years, driving up the ultimate cost of the failure.

Friends and employees call Keating, 66, shy, moral and devout.

Many in Phoenix, where he still runs the lavish Phoenician Hotel, remain faithful.

In a surprisingly candid statement, Keating said he found out in early April that regulators were going to move in and commandeer Lincoln.

In an effort to shield as many of Lincoln's assets as possible from the government, he put American Continental Co., Lincoln's parent company, and almost a dozen Lincoln subsidiaries into bankruptcy, where they are protected by the courts from the reach of regulators.

Ongoing battle

But the crisis at Lincoln and his ongoing battle with regulators has beaten him down, he said.

"It's ruined me and my family," he said last summer.

The regulators "have taken everything that I have, my family has."

He said: "If Lincoln and American go down, there is nothing left for me. I have every nickel I have tied up in this thing."

A thin 6-foot 5-inch former Olympic swimmer, Keating has his roots in a prominent Cincinnati family.

A lawyer by training, and with good Republican connections, Keating came to national attention in September 1970, when as President Richard Nixon's sole appointee to the Federal Commission on Obscenity and Pornography he successfully sued to block publication of its report until he had finished a dissenting report.

The commission's report said pornography was probably not harmful to society, and any laws passed to limit its use were

Going to court

Taking his causes to court became a Keating hallmark. That same month, he sued to block the performance in a Cincinnati theater of the erotic play "Oh, Calcutta."

Later, Keating was one founder of Citizens for Decency Through Law. He continues to contribute heavily to antipornography groups.

It was also in the 1970s that Keating became right-hand man to Carl H. Lindner, the Cincinnati takeover artist.

As Lindner was amassing vast holdings, Keating rose to become executive vice president of Lindner's American Financial Corp.

It was at American Financial that Keating had his first major run-in with regulators.

Both men charged

In 1979, after a three-year investigation, the Securities and Exchange Commission charged Lindner and Keating with using company funds for their personal benefit, including making large preferential loans to Keating's family and others.

Both men, without admitting or denying guilt, agreed to a consent order not to violate securities laws.

They had already parted ways. By that time, Keating had bought Lindner's struggling real estate development company in Phoenix for \$300,000, which became the basis for American Continental.

As American Continental was becoming a major real estate developer, Keating began seeking to buy a saving and loan association — primarily, he said in the July interview, to take advantage of the Reagan-era deregulatory environment.

With federal regulations rolled back, states loosened their regimes even more. In California a savings and loan owner could take all insured deposits and channel them into investments far riskier than home mortgages.

'Junk bonds'

In 1984, Keating bought Lincoln Savings for \$51 million and began using Lincoln deposits to buy high-risk "junk bonds" to finance the development projects of American Continental, one of which was the \$250 million Phoenician Hotel.

(Federal regulators Thursday fired Keating as manager of the Phoenician, a 605-room golf, tennis and spa complex carved from the Arizona desert near Scottsdale, as well as from posts at the 344-room Crescent Hotel in Phoenix. Keating's continuation as manager of the Phoenician had particularly galled members of the House Banking Committee.)

"We looked around and saw that California had deregulated the S&L industry in a way we felt was the salvation of the industry, so we bought Lincoln," Keating said.

"We declared from the beginning our intention to operate Lincoln in a non-traditional manner."

But almost immediately Keating ran into problems with Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, who had begun a big push to limit the direct investments by the savings industry in real estate projects to only 10 percent of an institution's assets, arguing that a rash of such investments had left scores of institutions insolvent.

High gear

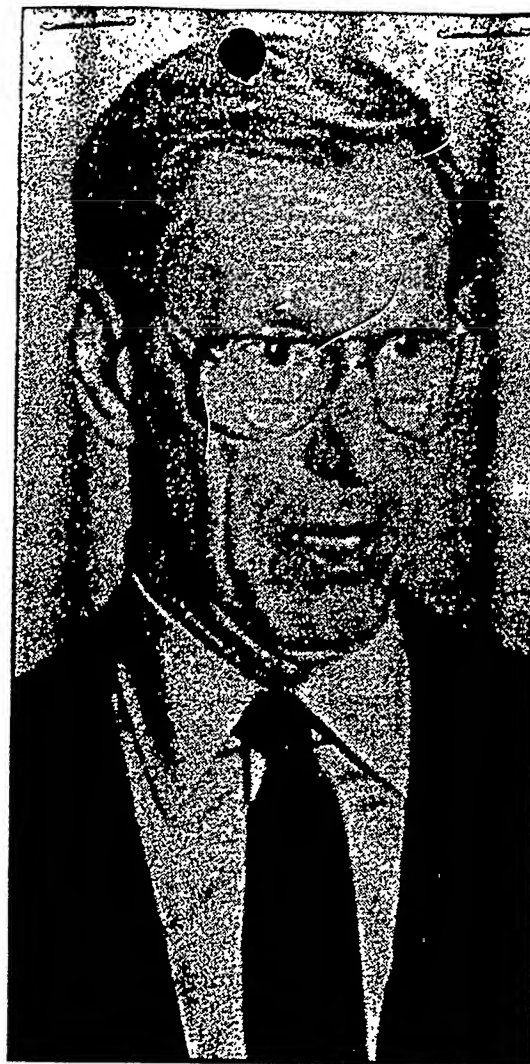
Keating went into high gear, hiring, among others, Alan Greenspan, then a private economist and now chairman of the Federal Reserve Board, to do a study that concluded that direct investments were not jeopardizing industry stability.

Greenspan wrote the Federal Home Loan Bank of San Francisco in February 1985, supporting an application by Keating for an exemption for Lincoln to the 10 percent rule, saying, "I believe Lincoln Savings and Loan has demonstrated that it has the adequate capitalization, sound business plan.

managerial expertise and proper diversification" to merit an exemption.

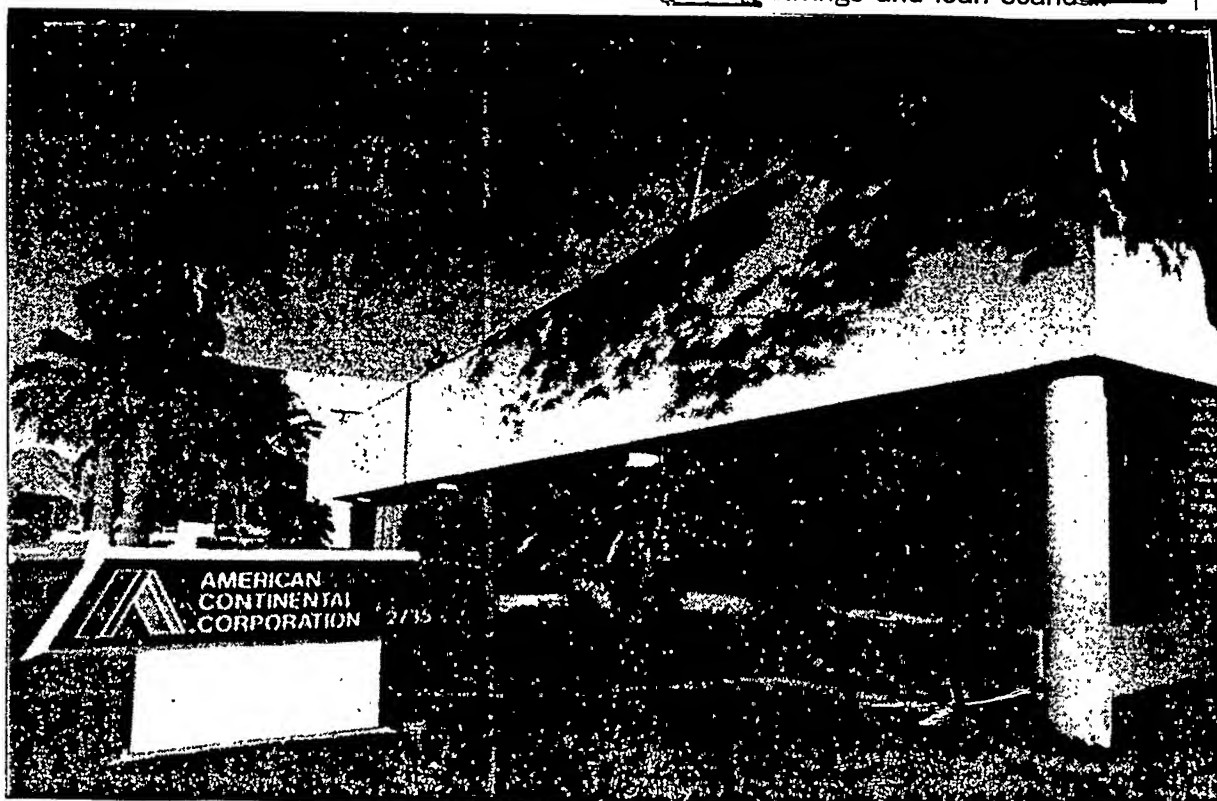
But an exemption for Lincoln was never granted, and the Gray-Keating conflict grew.

How much he gave in all may never be known. Keating is said to have claimed he spent \$11 million alone on his attempt to get rid of Gray.



THE ASSOCIATED PRESS

Charles H. Keating Jr. of Phoenix has emerged as the central figure in the growing savings and loan scandal.



THE ASSOCIATED PRESS

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JAN 26 1964	
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(Mount Clipping in Space Below)

Cranston's hopes for '92 clouded

GOP planning to pound senator with S&L disclosures

By JAMES W. SWEENEY
and RICK ORLOV
Daily News Staff Writers

After years of carefully cultivating an image of a politician who, above all else, could be trusted, Sen. Alan Cranston now faces an ethics probe that even Democrats acknowledge could badly damage his hopes for a fifth term.

Months of news coverage on the Lincoln Savings and Loan collapse — the largest in U.S. his-

tory — and the role played by Cranston with banking regulators have raised questions about whether the California Democrat will survive the political crisis and whether he could win re-election in 1992 if he does.

"Cranston's potential opponents are just salivating," said Mervin Field, whose California Poll is widely published in the state. "They're taking a look at the coverage on TV and in the newspapers and are saying, 'We don't have to do a thing.'"

The Senate Ethics Committee hired an independent counsel Friday to review the conduct of the 75-year-old Californian and four other senators who met with regulators on behalf of former Lincoln Savings head Charles H. Keating Jr. The five senators received \$1.3 million in political contributions from Keating.

Cranston has denied wrongdoing and has said he has not altered his plans to seek re-election.

"I am not responsible for loss

of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors," Cranston declared in a written statement.

Few in state politics, however, doubt that disclosures about Cranston's role in the Lincoln Savings affair will have serious repercussions.

Victims of the \$2.5 billion collapse of Lincoln told their stories during a nationally televised

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hearing of the House Banking Committee. Several bitterly blamed Cranston for allowing their life savings to be lost.

"In my opinion he failed us completely," said Connie Wicksman, a 78-year-old West Hills woman who along with her husband lost \$25,000 when Lincoln defaulted on its bonds.

"I gave Sen. Cranston something much more precious than money," said Shirley Lampel, a Tustin widow who lost \$30,000. "I gave him my vote and my trust, and he let me down."

Statements like those — all of them caught on videotape — have Republican leaders chuckling over the devastating 30-second television commercials they can aim at Cranston if he seeks re-election in 1992.

Republican political consultant Otto Bos, who is running the gubernatorial campaign for Sen. Pete Wilson, and other political activists believe that the Lincoln affair would put Cranston on the defensive from day one of his re-election effort.

"Here you have an average Californian — not a politician, not a pollster, not a consultant — saying on national television, 'I was betrayed.' I don't care if you are a Democrat, a Republican or an independent, that really hurts," Bos said.

Cranston, who received \$850,000 from Keating for voter registration efforts, has denied any wrongdoing, saying only that it was "stupid" to attend the meetings with then Federal Home Loan Bank Board chairman Edwin Gray.

Kam Kuwata, a Cranston spokesman and longtime adviser who plans to manage his 1992 re-election effort, said Cranston welcomes the independent counsel's probe and any other inquiry into the case.

"The more complete the inquiry is, once they find that nothing illegal or unethical took place, it will be difficult for Republicans to make political hay out of this," Kuwata said.

Cranston supporters point to the latest Field poll, in which 44 percent of those questioned said Cranston was doing a good or excellent job — about the same as ratings for Wilson and Gov. George Deukmejian.

But that survey was conducted before the House Banking Committee hearings shed an embarrassing spotlight on Cranston.

"When disclosures of Cranston's involvement with Keating first developed, the only people interested were political insiders who were confident the case would blow over," Field said. "The calls I get now are from people taking it seriously and asking if he'll last out this term."

Unless the disclosures continue and the new material is damning, Field and other observers believe that Cranston will finish his term.

"If he runs again, he will have a real problem," Field said.

If Cranston were to drop out, several names have already surfaced as possible Democratic successors. They are: former San Francisco Mayor Dianne Feinstein, who currently is running for governor; her successor, Art Agnos; Rep. Mel Levine of Santa Monica; former Gov. Edmund G. Brown Jr. (now state party chairman); and Controller Gray Davis.

Cranston spokesman Murray Flander said the senator plans to begin fund-raising efforts after the Senate recess, but some top money people in California politics are unsure if checkbooks will be open.

"Whether he'll be able to get the monies he has in the past is an interesting question that nobody can answer," said economist Stanley Sheinbaum, a key fund-raising contact for California Democrats.

Sheinbaum said it was Cranston's tenacious fund raising that got him into trouble, soliciting \$850,000 in contributions from Keating for a pair of non-profit voter registration efforts.

"When it comes to getting the dollars, he's a tiger," Sheinbaum said. "And he let it get the best of him."

Getting the dollars could be extremely important to Cranston in 1992. He spent \$11 million on his 1986 re-election effort with no scandal and narrowly defeated former Rep. Ed Zschau, who plans to run again next time.

Still, no one in either party is ready to write off Cranston — who returned to the top after losing his bid for a third term as state controller in 1966 and again after a disastrous presidential bid in 1984.

"It's like the old saying: 'The reports of my death are premature,'" Los Angeles attorney Mickey Kantor said. "It's still so early that no one knows the dimensions of all this."

Regardless of the political outcome, however, Kantor warned that Cranston and his staff are likely to be overwhelmed with preparing his defense and may find less time for Senate duties and the campaign.

Cranston could be helped if Wilson is elected governor next year, according to pollster Steve Teichner. Under that scenario, there would be two U.S. Senate races in California in 1992.

"If there is a second seat to debate on, not all the attention will be focused on him," Teichner said.

Perhaps no one is watching more closely than Zschau, who has been preparing for a rematch since 1986 when Cranston narrowly defeated him with a campaign that raised questions about Zschau's integrity.

"The bloom is off the rose," said Zschau, who called the Lincoln affair a "dirt pile."

This story was reported by James W. Sweeney in Sacramento and Rick Orlov in Los Angeles.



Alan Cranston
Foes "are salivating"

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COLUMN ONE

Lincoln's Risky Road to Disaster

■ How an Irvine savings and loan fueled a real estate empire—and became one of history's biggest financial fiascos.

By JAMES S. GRANELLI
TIMES STAFF WRITER

WASHINGTON—In late 1985, Shirley Lampel was a woman in anguish. Her husband had just died, and years of suffering from diabetes had left her without sight in one eye and only limited vision in the other.

The one ray of hope was financial. Her doting husband, Sy, an auto mechanic, had left a \$30,000 life insurance policy. Prudently invested, it would help support her modest but comfortable life in Santa Maria, Calif.

But Lampel reckoned without Irvine-based Lincoln Savings & Loan and Arizona home builder Charles H. Keating Jr., who had acquired the thrift the year before. As a result of what she thought was a rock-solid investment with Lincoln, her savings were devoured in what was to become one of the great financial fiascos of American history—one that could eventually cost taxpayers about \$2 billion.

"Lincoln gives a whole new definition to bank robbery," a bitter Lampel said recently. "It used to be that a person puts on a mask and goes in with a gun and robs a bank. Now we go into the bank and we get mugged. When did the bank become the crook?"

That's not how Keating and his subordinates see it. But what they did was use Lincoln's millions of dollars in federally insured deposits as new money for his cash-hungry real estate and financial empire. Shunning traditional home mortgages, they channeled the S&L's funds into huge tracts of raw land in Arizona, luxurious hotel

projects, a portfolio of junk bonds and other speculative ventures, according to federal regulators.

Now, federal and state investigators, regulators and lawmakers are poring over the details of Keating's activities. Already, regulators have filed a civil racketeering lawsuit accusing Keating and other Lincoln executives of squandering \$1.1 billion in federally insured deposits through a series of "illegal, fraudulent and imprudent acts." The suit and other documents allege that Keating and his associates sought to evade regulatory restrictions on such investments by making bogus loans to "straw" property buyers.

They also devised a tax plan that let them divert \$95 million to Lincoln's parent company by creating "phantom" profits through sham land swaps and loans, the regulators allege, and used accounting gimmicks, legal maneuvering and political string-pulling to further their operations and slow down investigators.

The Senate Ethics Committee decided last week to appoint an outside counsel to investigate Sen. Alan Cranston (D-Calif.) and four other senators who accepted large campaign contributions from Keating and then intervened with regulators on his behalf.

Compounding the ultimate cost to others, Keating and his associates sold about \$200 million in now-worthless debt securities to unwary customers such as Mrs. Lampel at Lincoln's branch offices. Many of the purchasers were elderly Southern Californians who thought the securities—issued by Lincoln's parent company—were federally insured.

Keating has repeatedly denied the government's charges. He has accused regulators of seeking revenge against him, harassing his employees and failing to understand real estate development. That, not his own actions, drove Lincoln to ruin, he says.

As a longtime home builder and mortgage lender, he said, his operation always has concentrated on single-family housing. He simply turned Lincoln, an institution whose financial health was questionable when he bought it, from a mortgage lender into a company that prepared raw land for residential construction, and he had a number of projects successfully built, he maintained.

Whatever the various government investigations ultimately dis-

close, it is already clear that Lincoln is one of the worst disasters in the nationwide savings and loan debacle.

Began as Lawyer

Keating, a collegiate gold medal swimmer in the Pan American Games and a Navy fighter pilot in World War II, began his business career as a lawyer in Cincinnati. In a conservative business community that traced its antecedents to the days when the Ohio River was the key to settling the American heartland, Keating stood out as an aggressive risk-taker and a stubborn competitor.

He was once described by his brother, William, as an "impatient" person who never worried about the popularity of his positions.

Also, he showed an early taste for combining business with politics. In the political arena, he became a vociferous opponent of pornography, aiding prosecutions, lobbying elected officials. He was even appointed to a federal commission that studied pornography.

And he managed his brother's successful congressional campaigns in 1970 and 1972.

At the same time, Keating pursued a career in real estate development that eventually made him a top executive in a firm owned by wealthy Cincinnati financier Carl H. Lindner, who specialized in making aggressive takeover bids for other companies. The close association they developed continued long after Keating left Cincinnati in 1976 to take over a founder-

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ing Lindner real estate development firm in Phoenix.

A few years after moving West, Keating had his first serious brush with federal regulators. In 1979, Lindner and Keating consented to a Securities and Exchange Commission order prohibiting them from fraudulently diverting corporate assets to their personal use.

By the early 1980s, Keating—riding the tide of explosive growth in the Sun Belt—had built the former Lindner construction firm, renamed American Continental Corp., into one of the nation's 10 biggest home builders.

Moreover, he—like others—had noticed a new opportunity: Congress, trying to rescue a savings and loan industry saddled with traditional low-rate, long-term home mortgage loans in an era of soaring interest rates, was dismantling the web of federal regulations that had always circumscribed the industry.

Under deregulation, banks and S&Ls were allowed to place a part of their assets in direct investments such as ownership interests in real estate projects and other ventures, instead of just making loans on which they would collect interest. They were also allowed to place customer funds in high-yield, high-risk "junk" bonds and other non-traditional investments.

Real estate developers saw the thrifts as ideal sources of cash for their own ventures. They liked savings and loans better than banks because they had broader investment powers and were cheaper to acquire. In addition, the

rules required thrift owners to put up only \$3 of their own cash for every \$100 in S&L investments. The capital requirement for banks was twice as high: \$6 for every \$100 in assets.

California was an especially tempting target for such takeovers. In an effort to prevent state-chartered savings and loans from converting to federal institutions, California had enacted an even more liberal deregulation law than the federal government. In 1983, the state allowed thrifts to put 100% of their money into direct investments.

From his headquarters in Phoenix, Keating spotted a California thrift that seemed ideal for his expanding purposes.

Lincoln Savings & Loan was an Orange County thrift that had experienced losses in the early 1980s, but it had returned to profitability by the end of 1983. Keating bought it in February, 1984, for \$51 million. At the time, regulators say, they were assured that Lincoln's previous management and lending policies would be retained.

Instead, Keating transformed the traditional mortgage lender into a post-deregulation dynamo. Indeed, he said he bought Lincoln to take full advantage of California's deregulation law.

Keating ousted the old executives, turned away from the S&L's traditional areas of business and began seeking bigger profits from riskier strategies.

—He used Lincoln's deposits to buy huge tracts of undeveloped Arizona desert in an effort to create shining new communities from dust. The most ambitious of those projects was Estrella, a 20,000-acre planned community 20 miles southwest of Phoenix that was to include 50,000 homes for 200,000 residents as well as retail, industrial and office space.

—He assembled parcels of land in the affluent Phoenix suburb of Scottsdale to build a \$296-million luxury resort hotel called the Phoenician Resort. He also bought the Hotel Pontchartrain, a troubled hotel in downtown Detroit, and initiated elaborate renovations.

—He used Lincoln funds to buy junk bonds and dabble in foreign currency trading. He bought big blocks of stock in other companies, prompting speculation that he might be a budding corporate raider.

He even sold the home-building unit of American Continental as he created a complex organization with 55 subsidiaries primarily devoted to real estate investment and development.

Efficacy in Doubt

In Washington, meanwhile, some were beginning to question the efficacy of the government's prescription for the ailing thrift industry. Edwin J. Gray, whose position as chairman of the Federal Home Loan Bank Board made him the nation's top savings and loan regulator, was one of them.

Across the country, S&Ls were using their customers' money to acquire stakes in windmill farms, restaurants and a host of other businesses they knew little about. Such investments, far from returning the industry to health, were bringing new losses so huge they threatened the solvency of the federal deposit insurance fund.

Gray began speaking out. What's more, he proposed a rule to require all federally-insured thrifts, including state-chartered S&Ls such as Lincoln, to limit direct investments to 10% of their assets.

Keating for one was furious. As he describes it, he had barely gotten into the S&L game and already the rules were changing. Arguing that Gray's proposed restriction would destroy the industry, Keating began lobbying hard against it.

He hired Alan Greenspan, a respected economist who had served as a senior official in the Richard M. Nixon and Gerald R. Ford administrations and now heads the Federal Reserve Board, to analyze the proposed rule. Greenspan produced a report opposing it.

Although executives at other savings and loans also lobbied against the direct investment rule, Keating was perhaps the most prominent and persistent opponent.

Keating arranged for a congressional resolution that called on Gray to delay implementing the investment restriction for six months. Although 225 House members signed the resolution, it failed to sway the regulators.

Unable to stop the restriction, Keating found a way to blunt its impact on Lincoln.

The Gray rule would be adopted in early 1985, Keating learned, but would be applied retroactively to Dec. 10, 1984; any direct investments made before that date would be permitted to stand, even if they exceeded the 10% limit.

Three days before the expected deadline, Lincoln won approval from the California Department of Savings and Loan to move an additional \$800 million into direct investments. That increased Lincoln's direct investments to about 40% of its \$2.2 billion in assets.

Customers Targeted

In 1986, Keating and his executives came up with an innovative way to raise unrestricted funds for American Continental. They would sell debt securities similar to the bonds issued by most of America's major corporations. But, instead of selling them through Wall Street brokerages and other investment firms, they would peddle the securities to Lincoln customers.

The California Department of Corporations routinely approved American Continental's first request to sell the debt securities, called subordinated debentures. About the same time, the state Department of Savings and Loan allowed American Continental to set up desks in the lobbies of Lincoln's 29 branches to sell the securities.

Although the securities were, in effect, junk bonds, Keating said he would have recommended them to anyone, even to the Roman Catholic charities he supported heavily with donations. In fact, the Sisters of Charity in Cincinnati bought \$444,000 of the securities.

In early 1988, American Continental sought approval for a second debenture offering. The California Department of Corporations approved the sales, even though the agency's own staff and the state's top savings and loan regulators expressed concern about the company's financial condition and ability to repay the debt.

In little more than two years, American Continental sold about \$200 million worth of debt securities to nearly 22,000 investors. About two-thirds of them were elderly Southern Californians who bought them at Lincoln branch offices.

Some of them have said in lawsuits and congressional testimony that they were persuaded to buy the securities instead of certificates of deposit by American Continental sales representatives, who assured them that the securities were safe.

Some have said they thought that the debentures were backed by federal deposit insurance—a costly mistake, as things turned out.

By 1986, federal regulators in the regional office in San Francisco were becoming distinctly unsympathetic to Keating's operations. They began a detailed audit of Lincoln's books that stretched over a full year—far longer than such examinations normally take. They concluded that Keating was handling Lincoln in an unsafe and unsound manner.

In particular, examiners reported that Lincoln had made a substantial number of loans without proper

appraisals, without verification of borrowers' credit and even, in some cases, without a loan application.

To a large extent, the examiners said in their reports, it appeared that Lincoln was making bogus loans in an effort to get around the new restrictions on direct investments in real estate and to record profits that it had not really earned.

Many major loans were made to "straw" buyers: people who bought properties with Lincoln funds on favorable terms and who never intended to repay the loans, thus leaving the savings and loan in control of the properties, the regulatory reports allege.

The examiners said that, after making the loans, Lincoln claimed as profits the up-front fees and interest such loans normally generate. However, in many cases Lincoln had also provided the money for the fees and interest in addition to financing the entire purchase price.

In May, 1987, the examiners recommended to their superiors in Washington that the government seize the institution or at least impose a restrictive order to curtail its high-flying operations.

Lincoln executives defended their practices, saying government regulators did not understand the S&L's development-oriented business. Regulators insisted, for instance, on using standards that applied to single-family loans to evaluate Lincoln's commercial loans. The thrift had obtained audited financial statements from the borrowers, and those documents provided a better picture of possible risks than a consumer credit report, they said.

They contended also that regulators made simple mathematical errors in computing such items as how much Lincoln should set aside in reserves to protect against possible losses.

The big loans were made to borrowers who came up with 25% down payments, company executives said. Lincoln did not finance 100% of the purchase price, they said, and any other loans that the buyers obtained were not for the purpose of providing the down payments. Lincoln, they said, was entitled to record the profits on the loans.

The recommendations of the regional regulators were not adopted by Gray or M. Danny Wall, who replaced Gray as head of the Federal Home Loan Bank Board in July, 1987. Wall, a former staff aide to the Senate Banking Committee, said that there was insufficient evidence to justify the extreme

action proposed by the San Francisco overseers.

If the rebuff angered the regional examiners, what came next stunned them. A year later, Wall stripped them of their supervisory responsibility for Lincoln and transferred jurisdiction to Washington.

Wall said an internal investigation had determined that substantial animosity had developed between Lincoln and the San Francisco regulators and that leaks of confidential financial information had damaged the savings and loan. Wall ordered a new examination directed by Washington-based regulators.

Instead of absolving Lincoln, however, the new audit reached even more damaging conclusions. Among other things, it called into question the tax-sharing plan Lincoln and its accountants had devised in 1986.

As a subsidiary of American Continental, Lincoln did not deal directly with the Internal Revenue Service on taxes. Instead, American Continental collected money from all its subsidiaries, then filed a consolidated tax return and made tax payments to the IRS on their behalf.

Over a period of a little more than two years, Lincoln made \$95 million in tax-sharing payments to its parent company, ostensibly to cover taxes on profits it had earned.

But the government alleges in its racketeering lawsuit and other documents that Lincoln did not owe \$95 million in taxes at the time and that American Continental never paid any of that money to the IRS.

Keating and his subordinates engaged in a series of sham transactions designed to create the appearance of higher profits, and thus higher tax obligations, as a device for siphoning money out of Lincoln and moving it to American Continental, which kept the extra funds, according to federal investigators.

Higher profits also boosted American Continental's stock price. That in turn helped Keating and his family collect \$34 million over five years from salaries, gains on stock sales, and other benefits, regulatory records state. The stock sales were made to American Continental's employee stock ownership plan, which obtained loans guaranteed by Lincoln to acquire the shares.

Lincoln executives said they did not misuse the tax-sharing arrangement.

The executives contend the transactions that generated the profits were legitimate and that Lincoln owed taxes, although they acknowledged that the taxes might not have been due immediately.

And, although Lincoln owed the taxes as a separate entity, they said, American Continental could use \$250 million in tax credits it had accumulated itself to offset any profits on a consolidated basis that it or its subsidiaries made. Meanwhile, executives argued, the parent company could invest Lincoln's tax payments any way it chose.

The tax plan was reviewed and approved by regulators, they pointed out.

They sold stock to the employee stock ownership plan, the executives said, because the plan, by its very nature, required the purchase of American Continental stock.

Because the stock was thinly traded, the plan could not acquire the big blocks of stock it needed, except through sales by insiders. They said also that the price the insiders received for their stock was slightly below prevailing market prices.

And any allegations of boosting stock prices to get money out of the employee stock ownership plan through the sales, they said, fall flat because most of such stock purchases occurred in 1985, long before the allegedly fraudulent transactions occurred.

Example Cited

One example of how Lincoln conducted its business, according to government regulators, is a loan it made to Ernest C. Garcia, a Phoenix-area developer.

Early in 1987, Garcia approached Lincoln to see if he could borrow money to buy the remaining stock in a company in which he already held a 20% interest. Lincoln executives agreed to make the loan, regulators allege, but there was a condition.

According to the government's racketeering lawsuit, the following events occurred:

As a condition of lending him the money he wanted, Lincoln asked Garcia to buy 1,000 acres of land owned by a Lincoln subsidiary for \$14 million. The 1,000 acres were part of an 8,500-acre tract called Hidden Valley Ranch.

Garcia told Lincoln that he could not make the purchase himself, so he arranged for a firm called Westcontinental Mortgage & Investment Corp. to buy the 1,000 acres instead. Lincoln agreed to the

arrangement and lent Westcon \$10.5 million, or 75% of the purchase price.

At the same time, Lincoln lent Garcia \$20.2 million, and Garcia lent \$3.5 million of that amount to Westcon. The \$3.5 million was used by Westcon to make the 25% cash down payment on the land purchase.

Lincoln recorded an \$11-million profit on the transaction, even though the only cash it received was \$3.5 million that had come out of its own coffers, the suit contends. Westcon has never made a payment on its \$10.5-million loan.

In a May, 1988, letter, Westcon acknowledged that it had acted as Garcia's nominee and asked him to "arrange for the transfer of this property to its rightful owner as soon as possible."

That transaction was the first of 10 involving Hidden Valley Ranch property. The government alleges that, altogether, Lincoln claimed "phantom profits" of \$82 million from the 10 deals. Those profits resulted in Lincoln's making \$31 million in tax-sharing payments to its parent company.

American Continental executives rejected the government's characterization of the Hidden Valley loans. They said that Garcia, for instance, obtained a \$30-million line of credit and that the \$20.2 million he borrowed on the line was wired directly to the Tucson Electric Power Co., which owned 80% of the company Garcia had founded in 1981.

The Hidden Valley deal, they said, was not a condition for obtaining the line of credit, and Garcia, a major developer, used his own funds to lend Westcon the down payment.

Senators Intervene

It was during this period that one of the most controversial episodes in the Lincoln case occurred. In his struggle against the regulators, Keating enlisted the aid of five U.S. senators, who intervened on his behalf in two now-controversial meetings with thrift regulators in April, 1987.

The five senators—Cranston, Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—had received more than \$300,000 in campaign contributions from Keating, his family and his business associates.

In addition, Cranston solicited \$850,000 from Keating for three voter registration groups that

Glenn solicited \$200,000 for a political organization he controlled. And McCain's wife and her father invested nearly \$360,000 in a 1986 Keating partnership that put up a Phoenix shopping center.

The first meeting, on April 2, 1987, involved bank board Chairman Gray and Sens. DeConcini, Glenn, McCain and Cranston. Gray later stated publicly that the four senators tried to make a deal for Keating by promising to get Lincoln to make more traditional home mortgages again if Gray would rescind the 10% limit on Lincoln's direct investments.

Their effort, Gray declared, was an "abuse of senatorial authority" and "tantamount to an attempt to subvert" the regulatory process.

The senators heatedly deny proposing any such deal. They say they met with Gray to discuss the unusually lengthy audit of Lincoln by the San Francisco regional office; their only message, the four senators say, was that the regulators should charge Keating with something or get off his back.

The second meeting occurred a week later. Riegle joined the other four in a session with regional regulators who were conducting the protracted examination of Lincoln. Minutes of the meeting show that DeConcini mentioned the direct investment rule, but there was no subsequent discussion of the issue. The minutes indicate also that the session ended abruptly when the regulators said they intended to refer the Lincoln case to the Justice Department for criminal prosecution. That investigation is now under way.

Regardless of whether a deal over the 10% rule was ever discussed, critics of the senators' actions suggest that their involvement may have delayed the ultimate seizure of Lincoln by two years, adding at least \$1 billion to the taxpayers' bill for bailing out the thrift.

Last Thursday, the Senate Ethics Committee decided to appoint an outside counsel to investigate whether the five senators violated ethics rules by going to bat for Keating.

Cranston, meanwhile, filed a formal response to the committee contending that he had done nothing illegal or improper in connection with Keating. He said his efforts on Lincoln's behalf never went beyond what a member of Congress can legally do for a constituent who is experiencing problems with the government.

Cranston denied that his actions were in any way responsible for the losses facing the government

American Continental debt securities.

And what of Keating's enormous bets on the future of Arizona real estate?

In brochures for Estrella, his big planned community southwest of Phoenix, Keating boasted that Phoenix would soon become the 12th-largest metropolitan area in the country. Employment was rising at an annual rate of nearly 4% as new residents flocked to the Grand Canyon state, and the future seemed as bright as the desert sun.

A Lincoln subsidiary put in miles of sidewalks, created two lakes and made other improvements at Estrella. Some businesses began to move in.

Meanwhile, Keating poured a total of \$296 million into the Phoenician Resort in Scottsdale, which was designed to attract the affluent tourists who had been streaming into the state in increasing numbers every winter.

Then things went bad. The influx of new residents and businesses to Arizona began to slow, but developers kept right on developing. Before long, the state was vastly overbuilt. The residential real estate market went flat. The commercial market fell through the floor. Even the tourist trade dropped off.

Today, Estrella bears little resemblance to Keating's predictions; much of the land is still largely undeveloped. The Phoenician opened in late 1988, and, although it is generating tremendous income—\$4.3 million last month alone—it is not generating enough to pay off its construction debt,

regulators claim.

"Lincoln never was a viable institution under Keating," said Bert Ely, an Alexandria, Va.-based consultant to the savings and loan industry.

Last week, government regulators seized control of the Phoenician and another Lincoln property, the Crescent Hotel in Phoenix, ousting Keating and as many as 30 of his associates from management of the lodges.

Seizure Occurs

The government finally seized Lincoln on April 14, 1989, declaring that it was being operated in an unsafe and unsound manner and that Keating and his executives were dissipating its assets.

The day before Lincoln was seized, American Continental filed for protection from creditors in U.S. Bankruptcy Court in Phoenix. The bankruptcy case prevented regulators from assuming full control of some of Lincoln's assets.

Also, it created an unusual group of victims. Lincoln's regular depositors would be made whole by taxpayers through the federal deposit insurance program, but the 22,000 investors who had bought the American Continental debt securities were left holding worthless paper. There was no federal insurance for them.

One of those investors was Shirley Lampel.

In 1985, Lampel's husband had died of a heart attack at the age of 58. Despite her inability to work because of the diabetes that had left her all but blind, Lampel

sought no pity. With Social Security payments and the monthly income from her husband's \$30,000 life insurance proceeds, she would make it.

One day, after moving from Santa Maria to Tustin, she had noticed a large newspaper advertisement about an investment opportunity being offered at a Lincoln office near her condominium. She took her life insurance proceeds and "practically beat down the door" at the Lincoln branch to buy American Continental debt securities.

After being assured that Lincoln was safe and sound, she had signed two pieces of paper and handed over a \$30,000 cashier's check. She could not read the fine print, and she said no one ever read the documents to her.

"I thought I was buying something similar to a certificate of deposit," she said. "I didn't know what debentures were. You have home insurance and car insurance, but do most of us really understand all that stuff? No. We trust."

Examiners reported that Lincoln had made a substantial number of loans without proper appraisals, without verification of borrowers' credit and even, in some cases, without a loan application.



Both M. Danny Wall, chairman of the Federal Home Loan Bank Board, left, and his predecessor, Edwin J. Gray, at one point rejected a recommended seizure or extreme restrictions on Lincoln Savings.



GARY AMBROSE / Los Angeles Times

Shirley Lampel, above, lost the \$30,000 she had planned to live on by investing it in American Continental Corp. securities. The firm's head, Charles H. Keating Jr., left, is under investigation.

(Mount Clipping in Space Below)

Cranston: My action did not violate laws, Senate ethics rules

ALAN CRANSTON

Dear Senators (Howell) Heflin and (Warren) Rudman:

I have engaged counsel to advise me whether any of my conduct in connection with the Lincoln Savings matter violated laws, ethical standards, or rules of the Senate...

Counsel demonstrates that my actions did not violate laws, standards or rules of the U.S. Senate. Beyond the legal question, however, I want to say again here, as I have said elsewhere, that my inquiries to the FHLBB (Federal Home Loan Bank Board) concerning Lincoln Savings were totally consistent with inquiries I have made for other constituents with credible complaints about their treatment by a federal agency.

When I went to the meeting with Mr. (Edwin J.) Gray (former FHLBB chairman) in Senator (Dennis) DeConcini's office, I knew the following:

- a. Lincoln Savings employed 740 people in California and had 140,000 depositors.
- b. The FHLBB had been conducting an examination of Lincoln for what seemed like an unreasonable, and perhaps unprecedented, length of time.
- c. The examination was having a da-

maging effect on the institution.

d. There had been unusually rancorous relationships between some examiners and some Lincoln officers and employees.

e. There had been an unusual number of leaks of sensitive information concerning Lincoln.

f. Mr. (Charles) Keating held the opinion that Lincoln was the subject of unfair treatment by FHLBB staff.

g. Responsible people and institutions with nationwide reputations, including Alan Greenspan and the Big Eight accounting firm of Arthur Young & Co., were publicly attesting to the soundness of Lincoln Savings as a lending institution.

The problem, as conveyed to me at the time not only by Mr. Keating but also by Mr. Greenspan and Arthur Young & Co., was that federal examiners bore substantial responsibility for creating a most destructive and irrational state of limbo for this institution, and that the FHLBB needed to act promptly.

There was nothing unethical or improper in my raising concerns with Mr. Gray or others that his agency act promptly and responsibly...

It was certainly my consistent message to FHLBB officials that regulated entities, as well as the general public, are entitled to

(Indicate page, name of newspaper, city and state.)

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prompt and fair action. I have conveyed this same message to heads of agencies, indeed to cabinet officers . . . on behalf of constituents who have helped raise campaign funds and for those who have not . . . (and) on behalf of constituents who support non-partisan voter registration projects in which I am deeply interested, and those who do not.

I would also like to correct some misimpressions, fostered in the press and elsewhere. I am not responsible for loss of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors. I never attempted to derail any investigation of wrongdoing at Lincoln, nor did I ever suggest to Chairman Gray . . . or any other official that an investigation be delayed. Even Mr. Gray's recent testimony before the House Banking Committee expressly denies that my actions or those of any other senator were the cause of any delay regarding Lincoln. Quite to the contrary, I urged that the FHLBB act promptly, in fairness to Lincoln's employees and depositors as well as its owners . . . When my conduct is fairly evaluated based upon what I knew at that time, I believe you will conclude that I was not attempting to help Mr. Keating or his companies evade the requirements of the law.

Finally, I must emphasize that at no time did I seek or receive personal benefits from Mr. Keating or anyone associated with him. Mr. Keating, like countless other individuals and groups, assisted with some political fund-raising for my 1986 re-election campaign. In addition, in 1987 and 1988, following my re-election, Mr. Keating arranged contributions to non-partisan voter registration groups that I actively support. I had no reason to believe that the contributions were not lawful under federal and state law or that there was anything improper about them. Most important, Mr. Keating never received from me any reason to believe that those contributions were in exchange for my help with the FHLBB, or with anybody else.

I do not know what the ultimate verdict on Mr. Keating's operation of Lincoln Savings will be. I understand there are allegations of serious wrongdoing by him and others. The fact that a constituent who requests a senator's help is subsequently accused or indeed convicted, of violations of the law does not suggest that a senator acted improperly. I assure you that I did not.

Sincerely,
Alan Cranston

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(Mount Clipping in Space Below)

Keating to Take 5th Amendment at S&L Hearings

■ **Thriffs:** The former owner of Lincoln Savings says the House is not 'the best forum' for answering allegations.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Former Lincoln Savings & Loan owner Charles H. Keating Jr., citing the Fifth Amendment, will refuse to testify today when he is called before a House committee to answer allegations that his fraudulent business practices caused the \$2.5-billion collapse of the Irvine-based thrift, according to his attorney.

Attorney John J. Quinn of Los Angeles told The Times that Keating has decided that the House Banking, Finance and Urban Affairs Committee hearing would not be "the best forum" to answer the many charges leveled against him since Lincoln was seized by the federal government last April.

Over the last two months, numerous witnesses have accused Keating of improperly using the thrift's deposits to make risky investments, buy political influence in Washington and enrich himself and his family. One witness testified that Keating and his family received \$34 million in salaries and other payments in the three years before Lincoln went bust.

Quinn, who persuaded the committee to delay Keating's testimony when it was scheduled for Nov. 7, indicated that his client would prefer to tell his side of the story during an upcoming federal court hearing on Keating's suit charging that federal regulators illegally seized control of Lincoln. Just two weeks ago, U.S. District Judge Stanley Sporkin ruled that Keating could have a court hearing in early December on part of his suit.

At the time, Robert K. Huffman, a Washington lawyer for American Continental Corp., Lincoln's parent company, described it as "a chance for a fair hearing."

"It's no secret that the company thinks the Gonzalez hearings are not fair," he

Continued from D1

added, referring to committee Chairman Henry B. Gonzalez (D-Tex.).

Witnesses who refuse to testify before a congressional hearing are sometimes permitted to read a prepared statement in their defense, but Quinn indicated that Keating would make no such statement. In fact, he said, Keating had been discouraged by the committee from making any opening statement if he intended to rely on the Fifth Amendment to avoid answering questions put to him by the panel.

The committee apparently was unaware of Keating's plans to invoke the Fifth Amendment. Julie Black, spokeswoman for the panel, said the committee still is assuming that Keating will testify and that he had obtained the earlier delay so that he could prepare testimony for his appearance today.

Although Keating's business practices have figured prominently in the testimony, the hearings so far have focused much more attention on the failure of federal regulators to control the thrift and on the intervention of five senators—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.)—on behalf of Lincoln. Keating helped raise \$1.4 million for the senators' campaigns and favorite causes.

Meanwhile, a federal judge in Los Angeles on Monday delayed a hearing on a request to freeze Keating's assets worldwide.

Small investors in Lincoln's par-

(Indicate page, name of newspaper, city and state.)

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NEXT STEP

■ The subpoena of Charles H. Keating Jr., former head of Lincoln Savings & Loan, to appear before the House Banking, Finance and Urban Affairs Committee today is just the first of many appearances that the beleaguered Arizona businessman will be forced to make as he defends his stewardship of the bankrupt Irvine thrift. The case also is being investigated by the Justice Department, the Securities and Exchange Commission and the California Legislature. In addition, Keating has been sued by the Federal Deposit Insurance Corp. and a group of investors who purchased worthless bonds in Keating's American Continental Corp.

ent, American Continental Corp. in Phoenix, filed a racketeering suit Monday—one of many filed in state and federal courts—and sought to put a hold on what they say is more than \$100 million that Keating has in foreign investments and bank accounts.

U.S. District Judge Stephen V. Wilson scheduled a Dec. 4 hearing on the investors' request for a temporary order freezing those assets. Keating and other defendants have until Nov. 29 to file any written response with the court.

The investors include nearly 22,000 people who bought almost \$200 million in American Continental debt securities at Lincoln's

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29 Southern California branches. The named plaintiff in Monday's filing is the First Baptist Church of Santa Ana, which invested \$35,000.

Scheduled to testify immediately before Keating is M. Danny Wall, director of the Office of Thrift Supervision, who frequently has been blamed by Gonzalez for failing to act more swiftly against Lincoln. He will be accompanied by two of his top employees, Rosemary Stewart and Darrel W. Dochow.

Dochow assumed responsibility for regulating Lincoln in 1987 after Wall took the unusual step of stripping the Federal Home Loan Bank Board's San Francisco office of its usual role of overseeing savings and loans in California. The San Francisco office had recommended that the federal government seize Lincoln in 1987.

Stewart is the author of a 1988 side letter to a memorandum of understanding between the bank board and Lincoln assuring the thrift that no information about its activities would be referred to criminal authorities.

In numerous interviews, Wall has criticized Gonzalez for not allowing him to answer the charges against him earlier. He admits that he met privately at least three times with Keating while his agency was investigating Lincoln but insists that his decision not to seize the Irvine thrift in 1987 was made solely on the basis of sound legal judgment.

Keating will be the final witness called this year as part of the House committee's inquiry into the demise of Lincoln, the most expen-

sive single thrift collapse in history.

Black said the committee staff has been instructed to prepare a report to be released early next year summing up the results of its inquiry so far into the Lincoln collapse. She said the panel has not yet decided whether it will hear more testimony related to the Lincoln affair after Congress reconvenes next January.

Unless the committee resumes the hearings next year, it will not take testimony from any of the four associates of Gov. George Deukmejian who were slated to be called about their alleged actions on behalf of Lincoln. Gonzalez had said last week that he wanted to subpoena "at least some of them, maybe all four."

He identified the four as Franklin Tom, former commissioner of the California Department of Corporations; Christine Bender, Tom's successor; Thomas C. Stickel, a longtime Deukmejian fund-raiser, and Karl Samuelian, the governor's chief fund-raiser.

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House Panel Assails Wall's Policy to 'Trust Keating'

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Only days before Lincoln Savings & Loan was seized in April, M. Danny Wall, the nation's chief savings and loan regulator, was expressing confidence in the owner of the Irvine thrift and advocating alternatives to a federal takeover, according to documents released Tuesday.

The previously confidential material was made public by Rep. Henry B. Gonzales (D-Tex.), chairman of the House Banking, Finance and Urban Affairs Committee, who cited it as evidence that Wall—who testified before the committee Tuesday—and other regulators never fully grasped the magnitude of the alleged fraud and

Please see KEATING, A12



Associated Press

Charles H. Keating Jr. as he was sworn in before House panel.

Continued from A1

mismanagement carried out by Lincoln owner Charles H. Keating Jr. before the federal seizure on April 14.

Keating, meanwhile, refused to answer questions put to him under subpoena by the committee Tuesday, invoking the Fifth Amendment's protection against self-incrimination. His brief appearance provided a theatrical climax to the committee's six-week investigation of what is expected to be the biggest savings and loan failure in U.S. history.

Gonzalez made it clear that he blames Wall and other federal regulators for failing to recognize that Keating and other officers of American Continental Corp., Lincoln's parent company, allegedly

BOND SALES PROBED

California opened a criminal investigation into allegations that unlicensed salesmen sold bonds at Lincoln Savings. D1

were looting the savings and loan on a systematic basis—turning it into what Gonzalez called their own personal "cash machine."

Handwritten notes made by Federal Home Loan Bank Board member Roger Martin during a board meeting last April 5 indicate that Wall was still pursuing what Gonzalez characterized as a "trust Keating" strategy only nine days before the government seized Lincoln.

The notes show that Wall said a seizure of Lincoln was "not the only alternative" open to federal regulators. He added that Keating was "skilled enough" to find someone to purchase the thrift so that a federal takeover could be avoided, the notes state.

Even so, however, Wall did nothing to stop the board from proceeding with the legal efforts that ultimately culminated with

the April 14 seizure.

Gonzalez said that Martin's notes, among others obtained by the committee during its investigation of the Lincoln affair, constitute "evidence that the Washington regulators didn't truly sense who they were dealing with in Charlie Keating."

Rep. Jim Leach (R-Iowa) said that the notes showed Wall to be "the Neville Chamberlain of financial regulation," referring to the British prime minister who negotiated a nonaggression pact with Adolf Hitler before World War II.

Yet the regulators were clearly not the only officials in Washington who retained confidence in Keating until the government stepped in.

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Wall testified Tuesday that on the day Lincoln was seized, he called Sen. Alan Cranston (D-Calif.) and other senators who previously had intervened with regulators on Keating's behalf. He said that Cranston replied "he hoped it was not a mistake."

Although the official minutes of the April 5 meeting do not reflect the comments recorded by bank board member Martin, Wall did not deny them during his long-delayed testimony before the committee.

Wall took over as chairman of the bank board in July, 1987, shortly after regional thrift regulators in San Francisco made the first recommendation that the government seize Lincoln.

Wall, who now heads the Office of Thrift Supervision, the bank board's successor agency, staunchly defended his decision to reject that recommendation on grounds that federal seizure of Lincoln in 1987 could not have been justified legally.

"We did not have a solid case in the fall of 1987 to take strong action against Lincoln Savings," Wall said.

But he stated publicly for the

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first time that he had made some mistakes.

"I acknowledge that if we had known then what we know now about this savings and loan, I for one would have done things differently—even through it appeared to be a solvent and well-capitalized institution at the time," he said.

Wall also denied that his failure to move sooner against Lincoln was the result of political pressure from Keating, with whom he had met personally three times during the bank board's investigation of Lincoln.

He also denied that he was swayed by Cranston and Sens. John McCain (R-Ariz.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.), who had received large campaign contributions from Keating.

Gonzalez, a long-time critic of Wall, released a six-inch stack of documents, many of which suggested that the bank board chairman had looked favorably upon Lincoln during the two-year period that he oversaw the investigation of the thrift.

A memo written by bank board counsel Jordan Luke on Nov. 11, 1987, reported that Wall had told another staff member, Darrel W. Dochow, to dispose of a pending matter involving Lincoln "because the chairman doesn't want anything to do with [Lincoln] to go to the board."

Dochow, who was placed in charge of the Lincoln investigation by Wall in 1987, gave a similar account in testimony Tuesday. "I had a sense—I had a feeling that the three bank board members wanted [the Lincoln case] resolved on a friendly basis," he said.

Likewise, Wall and his hand-picked assistants at the board all expressed confidence in Keating during a May 5, 1988, meeting, according to Martin's handwritten

notes.

"Keating is no Don Dixon," Wall is reported to have said at that meeting. Dixon was the owner of another high-flying thrift, Vernon Savings & Loan in Texas, that will cost the government \$1 billion to clean up.

Gonzalez said that the attitude of Wall and his assistants was particularly difficult to understand since Keating had made no secret of his intention to use Lincoln's assets to make risky investments in long-shot land development deals and junk bonds.

"This was jet-age banking up against horse-and-buggy regulation," he said.

Tuesday's testimony by Wall, Dachow and Rosemary Stewart, the chief of enforcement at the Office of Thrift Supervision, was criticized by some committee members.

Rep. Jim Bunning (R-Ky.) summed up Wall's testimony as follows: "Poor Danny Wall, I'm too busy to do the job I was assigned to do."

Rep. Marge Roukema (R-N.J.) said the testimony demonstrated that throughout the two years that Wall and his associates investigated the Lincoln case, "there was always another rationalization why Lincoln cannot be closed down."

Under lengthy questioning, Wall, Dachow and Stewart defended their decision in early 1988 to enter into a "memorandum of understanding" with Lincoln that permitted the thrift to continue in business despite evidence of wrongdoing.

Wall said the agreement gave bank board examiners access to Lincoln's books, eventually leading to government action against Lincoln earlier this year.

But the board continued to look favorably on Lincoln, Wall acknowledged, until California Savings and Loan Commissioner Wil-

liam Crawford notified federal regulators that American Continental was looting Lincoln by collecting advance taxes from the thrift. Those taxes were never forwarded to the government.

At that point, Wall said, "we knew we were dealing with bad people."

Wall also insisted that the state of California and the Securities and Exchange Commission share responsibility with the bank board for allowing American Continental to sell junk bonds in the lobbies of Lincoln branch offices. More than 24,000 investors bought the now-worthless bonds, many thinking they were insured by the government.

In his appearance before the committee, Keating declared: "I have no testimony to give today. . . . On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege and refuse to answer questions here today."

Keating, who refused to allow cameras to record him as he invoked the Fifth Amendment, later issued a statement saying that he might reconsider his refusal to testify "with the passage of time and the resolution of various investigations."

Lincoln's collapse, which will cost the government an estimated \$2 billion, also is being investigated by the Justice Department, the Securities and Exchange Commission and a committee of the California Assembly.

Before invoking the Fifth Amendment, Keating tried without success to persuade the committee to close its proceedings to the press. When it became apparent that the committee intended to debate the matter at length, he withdrew the request.

Times staff writer James S. Granelli in Orange County contributed to this report.

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Wall Denies Politics Altered S&L Rulings As Lincoln's Ex-Owner Refuses to Testify

By BROOKS JACKSON
And PAULETTE THOMAS

Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—Thrift regulator Danny Wall told a congressional hearing that politics played no part in his decisions regarding Lincoln Savings & Loan Association, while Lincoln's former owner asserted his constitutional rights and declined to testify.

Lincoln's Charles Keating, who cited his Fifth Amendment right against self-incrimination, said in a statement later that Congress should turn to "the unpleasant task of revamping the existing regulatory scheme," adding, "I am not sure that Congress is really up to the task."

Mr. Keating's refusal came at the House Banking Committee's sixth day of hearings on why regulators in Washington waited nearly two years to seize Lincoln after receiving a recommendation for such action on May 1, 1987. The hearings have focused on regulators' relationship with Mr. Keating, who arranged \$1.4 million in political contributions for five U.S. senators who interceded for him with Mr. Wall's predecessor, Edwin Gray.

"My decisions in the Lincoln case were my own," Mr. Wall, director of the Office of Thrift Supervision, declared in his testimony before the committee. "They were devoid of any political influence."

The hearings have occurred amid some lawmakers' calls for Mr. Wall's resignation and weakening support from the Bush administration. Rep. Jim Leach (R., Iowa) called Mr. Wall "the Neville Chamberlain of financial regulation, a cheerleader who saw little evil and thus spoke little truth."

During the hearings, Mr. Wall said he has asked the Justice Department and the Securities and Exchange Commission to investigate "what may be a pattern" regarding Lincoln's use of high-yield junk bonds tied to subordinated debt, and including possible links to Southmark Corp., a Dallas real estate investment company. Mr. Wall said the inquiry involving Southmark is "a very, very important investigation," but wouldn't elaborate. There were several transactions between Southmark and its Houston thrift, and Lincoln S&L and American Continental, Lincoln's former parent, involving real estate purchases and loans for those purchases, that have attracted regulators' attention.

Committee members were less concerned about whether politics influenced Mr. Wall than they were about the fractious relationship between thrift regulators in San Francisco and Washington, which appeared to divert them from focusing on the substantive question of whether Lincoln was operating recklessly. "I, for the life of me, can't see why you didn't listen to your people in San Francisco instead of Keating," Rep. Toby Roth (R., Wis.) told Mr. Wall. "When it comes to Mr. Keating, you seem to be rather wimpish."

(Space Below)

Mr. Wall testified that "I was not under the spell of Charles Keating," and he and his top deputies said they delayed action because there was a lack of evidence to support strong regulatory moves. Rosemary Stewart, the agency's chief of enforcement, said they lacked specific documentation that would hold up in court to prove suspected illegal lending practices.

But several panel members were skeptical. Rep. Paul Kanjorski (D., Pa.) told Ms. Stewart, "If you were chief counsel of the Senate committee investigating Richard Nixon in 1972, he'd still be in office."

Mr. Wall conceded he should have done

some things differently. He said he should have taken on Mr. Keating in court when he threatened lawsuits to keep examiners from the San Francisco office out of his Irvine, Calif., thrift in 1987. He also said he should have resolved an acrimonious rift between regulators in San Francisco and Ms. Stewart in Washington.

That feud was still running yesterday. Ms. Stewart testified that William Black of the San Francisco office participated in a troublesome news leak of confidential information concerning Lincoln to The Wall Street Journal in late 1986, and that he might have committed perjury in characterizing her role in the Lincoln affair. She was admonished by Rep. Leach, however, who called the perjury remark "very defensive and uncalled-for."

Mr. Black had criticized a letter Ms. Stewart wrote to Lincoln disclaiming any intent to refer Lincoln actions for possible criminal inquiries; Rep. Leach said he thought the letter was "egregiously soft" and "an embarrassment."

As to the news leak, Mr. Black testified at an earlier hearing that the information seemed to emanate originally from a staff aide of the Senate Banking Committee, whom Mr. Black had briefed. Mr. Black also said he confirmed The Journal's report at the direction of Mr. Gray.

Mr. Wall's apologies yesterday won some rare sympathy from the panel, which reserved much of its incredulity for Ms. Stewart.

But at yesterday's hearings, the Banking Committee staff released dozens of exhibits reflecting Mr. Wall's cautious approach to Mr. Keating. Committee investigators tallied 25 telephone calls and meetings involving Mr. Keating and Mr. Wall or his Washington-based aides.

At a crucial May 5, 1988, meeting of the Federal Home Loan Bank Board (which was predecessor to the Office of Thrift Supervision), Mr. Wall declared he knew Mr. Keating personally, though not well, according to the official minutes of the closed session. "It seems to me Mr. Keating in my own knowledge has been a very active, and a very entrepreneurial businessman for at the least the last 13 years that I've known him," Mr. Wall said.

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WALL STREET JOURNAL

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Another regulator, George Barclay, president of the Federal Home Loan Bank of Dallas, was quoted as saying at the same meeting that Mr. Keating's complaints of harassment by regulators and of regulatory delays reminded him of similar complaints raised by Empire Savings & Loan Association and Vernon Savings & Loan Association before those two Texas thrifts crashed, amid allegations of widespread wrongdoing. But Mr. Wall said Mr. Keating "is clearly not a flash in the pan, and he's not a Don Dixon," a reference to Vernon's flamboyant owner.

It was at the May meeting that a divided Bank Board relieved San Francisco officials of responsibility for examining Lincoln and commenced a Washington-led exam that resulted in Lincoln's seizure by the government nearly a year later. The collapse of Lincoln is expected to cost taxpayers as much as \$2.5 billion.

Other documents released by the committee show Mr. Wall remained hopeful almost to the end that Mr. Keating's skills as a businessman would spare the government from having to move in on Lincoln. At a Bank Board meeting on April 5, 1989, just days before Lincoln's parent company entered bankruptcy-law proceedings, Mr. Wall expressed hope that Mr. Keating could find a qualified buyer for the thrift.

(Mount Clipping in Space Below)

Vast Investment in State Politics by Keating Told

By RALPH FRAMMOLINO
and PAUL JACOBS
TIMES STAFF WRITERS

SACRAMENTO—Lincoln Savings & Loan owner Charles H. Keating Jr., his family and his business empire poured nearly \$350,000 into state politics during 1985 and 1986, with about half of it going to Gov. George Deukmejian's reelection campaign, contribution records show.

Along with the \$173,000 donated to Deukmejian's campaign, Keating's family and business connections also contributed \$176,500 over the two years to Democratic and Republican groups and such politicians as then-Assembly Republican Leader Pat

■ EARLY WARNING

A key federal regulator told top government officials nearly a year before the collapse of Lincoln S&L that their efforts to control the Irvine thrift would be unsuccessful. D1

Nolan of Glendale and Gray Davis in his successful race for state controller.

The figures do not include, at least \$83,336 in contributions made personally or through the firms of two other Keating associates—Los Angeles attorney Karl M. Samuelian and San Diego businessman Tom C. Stickel.

Keating hired Samuelian, the governor's chief fund raiser, to be one of his California attorneys. He also invested heavily in a San Diego company controlled by Stickel, who also was a Deukmejian fund raiser and became the Republican Party's finance co-chairman in 1987.

"Charlie Keating's political reach, in retrospect, was phenomenal," Stickel said in a recent interview about Keating's political muscle.

The political largess in Sacramento was part of a web of influence that the blunt-talking Arizona businessman wove throughout the country to nurture and

protect his ill-fated financial and investment companies, which regulators now contend inflated the value of their assets and deceived investors into buying high-risk bonds.

In April, Keating's American Continental Corp. of Phoenix filed for bankruptcy, prompting federal officials to immediately take over its subsidiary Lincoln Savings & Loan. The move is expected to cost taxpayers \$2 billion—the costliest savings and loan bailout in American history.

After the seizure, the outspoken Keating candidly declared that he had expected the political contributions to prod influential politicians, such as U.S. Sen. Alan Cranston (D-Calif.), to fend off hostile regulators.

"One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," said Keating. "I want to say in the most forceful way I can, I certainly hope so."

In California, Keating hired key Deukmejian supporters or appointees to help protect his ill-fated Lincoln Savings. As attorneys, he hired fund raiser Samuelian and Franklin Tom, a former state commissioner of savings and loan who left public service to join Samuelian's Los Angeles law firm. The

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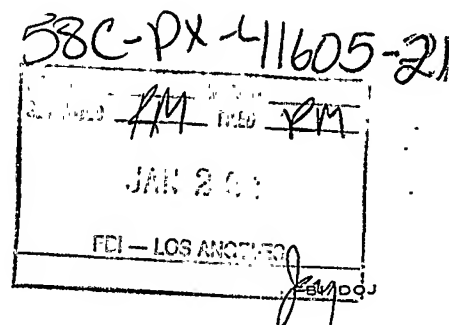
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Title: VAST INVESTMENT IN STATE
POLITICS BY KEATING TOLD

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lawyers helped Keating obtain state permission to float more than \$200 million in high-risk bonds, on which his company subsequently defaulted.

Keating also paid \$200,000 in 1985 for the consulting services of former Savings and Loan Commissioner Lawrence W. Taggart, who had left government service in December, 1984, for a job with TCS Enterprises of San Diego. Days before he left for TCS, Taggart approved a request by Lincoln to increase the amount of assets the institution could sink into high-risk real estate investments.

In January, 1985, when Taggart joined TCS, Keating hired him as an executive and paid \$2.89 million to buy 19.2% of the fledgling San Diego firm's stock as it went public.

Meanwhile, Keating and his associates were investing heavily in California state politics. His coalition of contributors included his family—son Charles Keating III and three sons-in-law—and his corporations, including American Continental, Lincoln Savings and three other subsidiaries.

The group also included eight employees and executives, such as American Continental Vice President Robert J. Kielty and consultant Taggart, as well as Phoenix business associate Conley Wolfswinkel, who bought 6,150 acres in Tucson with American Continental in 1985.

While Keating himself gave only \$7,000—all of it to Deukmejian—the coalition of his relatives, busi-

ness interests and associates brought total donations to \$349,500 in 1985 and 1986. Reports show:

- Deukmejian received \$173,000 from the Arizona businessman and his associates. The governor received \$80,000 directly from American Continental and Lincoln Savings; \$19,000 from Keating and his family members; \$51,000 from other American Continental subsidiaries and executives; and \$23,000 from Keating business associates.

The governor has said that he met Keating only once and never knew of Lincoln's financial woes until he read about them in newspaper reports this year.

- Keating and associates gave \$176,500 to other state political organizations and politicians. They gave \$7,500 to the California Republican Party, \$50,000 to the League of Conservative Voters, \$17,000 to then-Assemblyman Davis' campaign for state controller, and \$85,000 to the state Democratic Party.

They also gave \$17,000 to four legislators—Nolan, who authored the law deregulating the savings and loan industry in 1982; Assembly Rules Committee Chairman Tom Bane (D-Van Nuys); Assemblyman Bruce Bronzan (D-Fresno), and Assemblyman Dennis Brown (R-Los Alamitos).

- Stickel and TCS contributed \$50,666 in money, staff time and office space to Deukmejian and the Republican Party. Samuelian and his law partners gave \$32,700.

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S&L's Failure a Shock, Says Greenspan

■ **Thriffs:** He sought help for Lincoln Savings 5 years ago while acting as a consultant. Today, Fed chairman still backs relief on direct investments.

From Associated Press

WASHINGTON—Federal Reserve Chairman Alan Greenspan, looking back on his work for Lincoln Savings & Loan Assn., said he does not believe that he could have foreseen the thrift's failure, expected to be the costliest in the nation's history.

Nearly five years ago, Greenspan testified before Congress as a private consultant and lobbied regulators on behalf of Lincoln and its owner, Phoenix millionaire Charles H. Keating Jr.

Keating objected to federal regulations restricting thrift institutions' direct investments in real estate development. Greenspan, a conservative economist generally opposed to government's meddling in business, supported him.

In an interview last week, Greenspan said he was surprised and distressed by Lincoln's eventual failure because of sour real estate deals. But he said he still supports short-term direct investments when thrifts are exposed to interest rate risks.

Supporters of direct investments have long argued that they can benefit S&Ls struggling with a portfolio of long-term mortgages.

"I look back and I say to myself, 'Was there something I should have seen and didn't see?' and the answer is, 'There was nothing visible—at least to me,'" Greenspan said.

In early 1985, Irvine, Calif.-based Lincoln was a fast-growing institution under aggressive managers who eschewed traditional home mortgage lending. Greenspan was a private economist with impressive political credentials as President Gerald R. Ford's chief economic adviser a decade earlier.

Now, Lincoln is insolvent and under government control. Regulators say it will cost taxpayers \$2 billion to protect its depositors.

In a Feb. 13, 1985, letter to the Federal Home Loan Bank of San Francisco, Greenspan argued that Lincoln deserved an exemption from regulations limiting to 10% thrifts' direct investment in real estate and other commercial ventures.

Lincoln's management, he said, was "seasoned and expert in selecting and making direct investments" with "a long and continuous track record of outstanding success." The institution itself was "financially strong," in a "vibrant and healthy state" and presented "no foreseeable risk to the Federal Savings and Loan Insurance Corp.," he said.

Two weeks later, on Feb. 27, 1985, Greenspan told the House Government Operations subcommittee on consumer, commerce and monetary affairs that direct investments, while undoubtedly risky, were essential for thrifts to diversify their holdings.

LINCOLN

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Traditional S&Ls, which took in short-term deposits and made long-term mortgage loans, were vulnerable to a sharp rise in interest rates and direct investments were a valuable alternative, he said.

He also endorsed a study by economist George Bentsen that cited the success of 17 S&Ls in direct investments. Fifteen of the 17 have since failed.

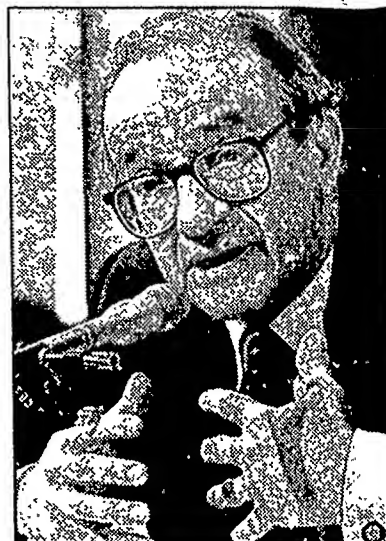
"It was my view then, as it is now, that interest rate risk was the crucial problem confronting S&Ls—the problem of long-term assets financed by short-term deposits. In that particular context, at that particular time, direct investment would reduce risk," he said.

Greenspan still believes that Bentsen took a "rather sensible statistical approach" but he points out that most of the 17 S&Ls cited in his study were in Texas, later the center of the oil and real estate bust.

The central bank chairman's views have been cited as one of the reasons why a petition, calling on S&L regulators to postpone direct investment limits, attracted 225 signatures in the House in early 1985.

It is also being cited as a reason why, two years later, five senators decided to intervene with S&L regulators after Keating complained about their efforts to examine Lincoln's finances.

The five—Alan Cranston (D-Calif.), Dennis DeConcini (D-



AL STEPHENSON

Alan Greenspan

Ariz.), Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio) and John McCain (R-Ariz.)—met with the regulators in April, 1987.

Two of them—Cranston and McCain—said Greenspan's views on Lincoln's health heavily influenced their thinking.

"The problem, as conveyed to me at the time, not only by Mr. Keating but also by Mr. Greenspan and Arthur Young & Co. [an accounting firm] was that federal examiners bore substantial responsibility for creating a most destructive and irrational state of limbo for this institution," Cranston told the Senate Ethics Committee in a Nov. 16 letter.

Greenspan said he does not understand why some senators cite his opinion as a reason for actions taken so long after it was given.

Lincoln Savings & Loan Assn.

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Lincoln Savings, Cranston Losses: Perceptions of Political Propriety

■ Fund-Raising: When politicians take campaign dollars from wheeler-dealers, they may build war chests at the expense of public trust.

By Sherry Bebitch Jeffe

In 1969, one of the first constituent letters to newly elected California Sen. Alan Cranston came from comedian Groucho Marx, who wrote: "I am one of your strongest supporters and one who believed in your integrity—perhaps even your manhood. I sent you a check for \$25 for your campaign."

"Inasmuch as you are now safely ensconced in office, I think you would be doing a handsome deed by returning the \$25."

The senator reportedly replied:

"Dear Groucho:

"I was relieved to learn that you believe in my integrity and my manhood, just as you will be relieved to learn that your \$25 check, which I promptly cashed, was good."

"So much for my integrity, my manhood and your 25 bucks."

Two decades later, Cranston, by his involvement with the now-defunct Lincoln Savings and Loan Assn., has sent a message in the same spirit to the thrift's beleaguered investors. But this time, it's no laughing matter; this time, stakes are higher and there are real victims.

The saga of Irvine-based Lincoln Savings involves alleged fraud and insider dealing by its owners, allegations that the regulatory process was subjected to political interference and charges that regulators leaked confidential information. Cleaning up the Lincoln mess may cost U.S. taxpayers more than \$2 billion.

What happened defines the collapse of the nation's savings-and-loan industry. It is also a California political tragedy.

California has come to epitomize the trend toward big politics bankrolled by rich wheeler-dealers. The Lincoln debacle—the role of Cranston and other government officials in it—underscores the perils of a political system gone sour.

Five U.S. senators—Cranston, Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.)—are alleged to have improperly intervened with federal regulators on behalf of the failing S&L. Together, they received more than \$1.3 million in contributions from Lincoln's owner, Charles H. Keating Jr., and his associates, for their own campaign committees or for political committees with which they were affiliated.

Cranston, a senior member of the Senate Banking, Housing and Urban Affairs Committee, took \$39,000 in direct contributions for his 1986 reelection campaign and solicited more than \$900,000 for voter-education projects and get-out-the-vote drives.

All five senators have argued that they did not intervene because of Keating's donations, that they merely made "routine inquiries" as they would on behalf of any constituent. But that's not necessarily the public perception.

Whether in perception or reality, public officials cannot go around championing the risky interests of a single generous individual over the greater public good. It is, as Cranston himself admitted, "politically stupid." Why did politicians in Sacramento and Washington intervene?

They intervened because they weren't prohibited from intervening. The rationale is that part of a representative's job is constituent service. It's just that some constituents—mostly large campaign contributors—are more equal than others. They intervened because the system encourages it—that's how huge electoral bills are paid.

The bill for Cranston's narrow 1986 victory was \$11 million. And he has already begun raising large sums for 1992. His constant fund-raising is not unusual; the political fact of life for all incumbents is that nothing beats a huge, early war chest to freeze out potential challengers.

Early on, Cranston dismissed the hubbub over his questionable campaign contributions. "I don't see it as a major issue," he insisted, "compared with 20 years in the Senate." But like the current problems of Mayor Tom Bradley, Cranston's ethical quandaries stem, at least partially, from long tenure in public office.

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES

Date: SUN. Nov. 26, 1989

Edition: OPINION SECTION, PAGE M4

Title: LINCOLN SAVINGS, CRANSTON
LOSSES: PERCEPTIONS OF
POLITICAL PROPRIETY

Character: BF&E

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LOS ANGELES

Indexing:

Cranston, like Bradley, has become a victim of "professional politician syndrome." Hubris—the overweening arrogance that comes from being in power too long—leads to isolation from the broader constituency. Entrenched incumbents take it upon themselves to be the sole judge of their actions. That's what happened here. And they judged poorly.

It will be difficult for Cranston, if he runs for a fifth term, to position himself as the "champion of the underdog" when his opponents and the media portray a grinch who stole pensioners' savings.

Opinion-makers have already begun to write Cranston's political obituary. The conventional wisdom is that, like Bradley, Cranston will limp into political retirement—absent any legal charges that might stem from his troubles.

In Washington, the California congressional delegation has already suffered the resignation of the third-ranking House Democrat, Tony L. Coelho. The former Merced congressman, once thought to be the embodiment of the high-powered California approach to campaign fund-raising, left in the wake of ethical questions about his financial dealings.

Now Cranston, the Senate's assistant majority leader, the highest ranking Californian on the Senate leadership ladder, has been weakened by ethical and political questions.

At the ballot box and in the media, the political outcome of the Keating scandal may be a bipartisan wash, both in California and nationally.

The group of senators under investigation includes four Democrats and one Republican. But Keating is a Republican who contributed heavily to both parties. M. Danny Wall, the Federal Home Loan Bank Board chairman accused of being too lenient with Lincoln, was a Reagan appointee.

In California, Lincoln collapsed on the watch of Republican Gov. George Deukmejian, whose 1986 campaign received \$172,000 in Keating-connected largess.

State legislators of both parties, who are involved in banking and thrift regulation, have also received contributions, including \$53,750 from Lincoln to members of the California Assembly's Finance and Insurance Committee.

The Keating affair has also raised questions about the politics of the regulatory process. One of the hottest is how much political pressure was applied to state and federal regulators. At minimum, what happened constituted inappropriate legislative meddling in the regulatory arena. At worst, it confirmed the existence of a system that requires bureaucrats to be politically responsive to the regulated industries whose contributions keep their elected bosses in power.

The Lincoln mess demonstrates the devastating impact on public policy of the "legalized bribery" that fuels the national and state political process.

Back when Southern Pacific ran California and later when lobbyist Artie Samish "selected and elected"—sometimes housed and fed—underpaid, part-time legislators, corruption tended to be personal. The end was self-enrichment. Votes were traded for money, sustenance and other favors.

With the "upgrading" of the past two decades, corruption has tended to become institutional. It stems not from illegal personal behavior but from the necessity to contest legitimate elections to win powerful, attractive, but costly jobs.

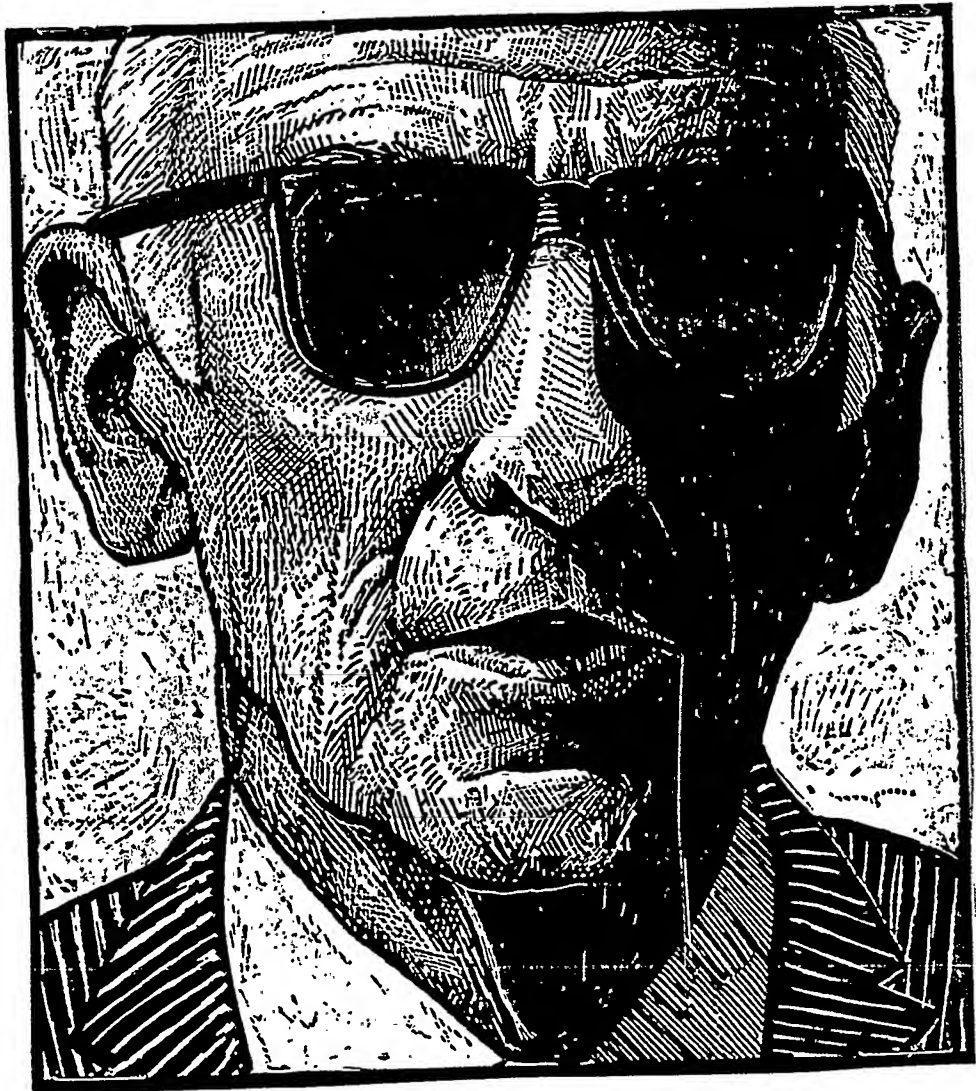
Most politicians, Cranston included, would never trade their vote for personal wealth but many have rationalized their corruption by arguing that taking money from special interests is OK as long as it's "for a good cause."

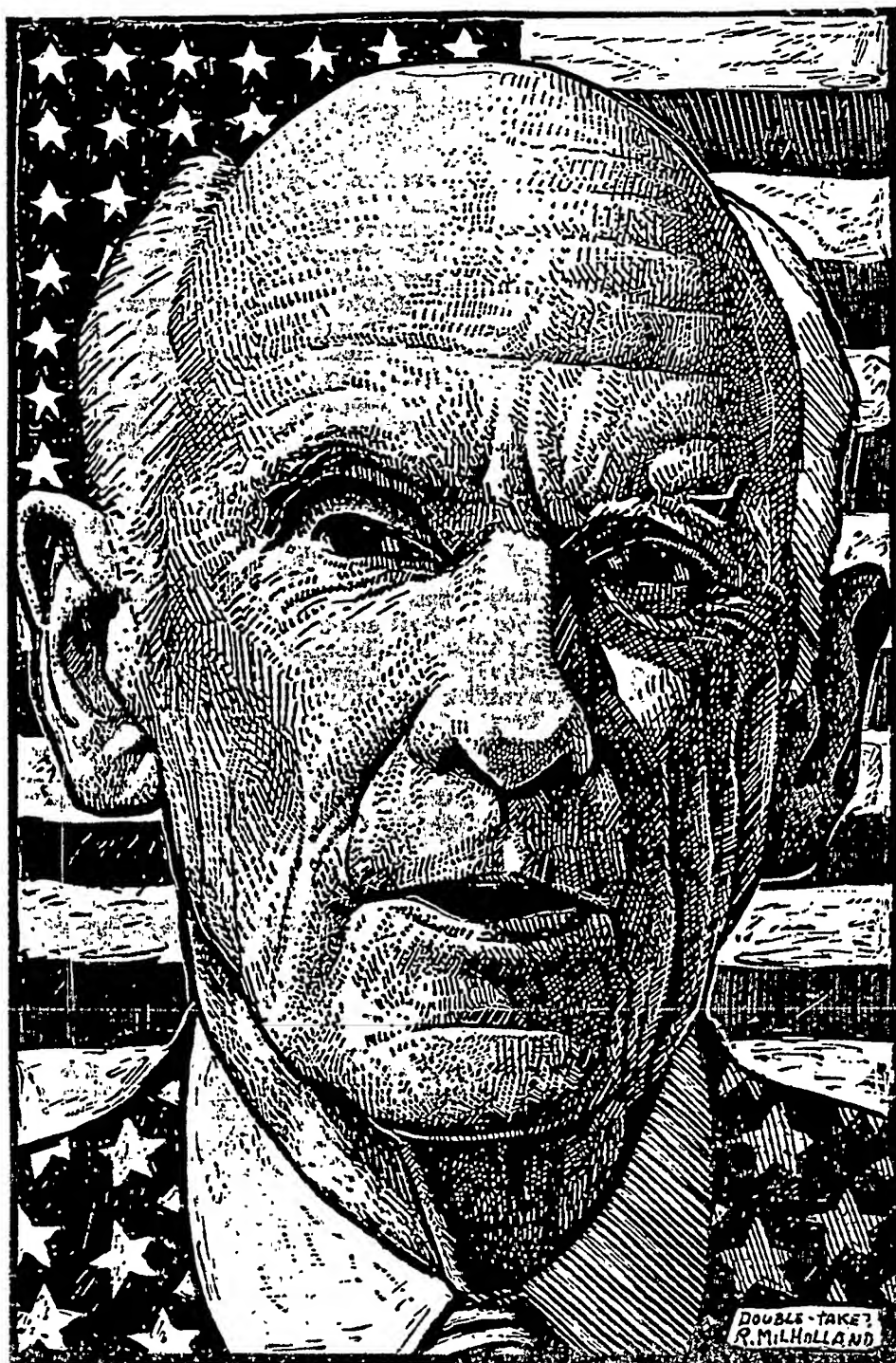
That may be Cranston's rationale for 20 years spent taking contributions from economic interests whose aims don't mesh with his liberal agenda; he wants to protect that agenda in an increasingly hostile political environment and that requires campaign money.

But is that explanation enough? Or do campaign contributions allow politicians to dodge the moral and legal dilemmas inherent in our current system by, in effect, institutionalizing bribery?

Did the senators' intervention violate, as Common Cause alleged, rules "prohibiting improper conduct . . . the dispensing of special favors and privilege"?

Did a senator accept "favors or benefits under circumstances that might be construed . . . as influencing the performance of his governmental duties?" That question is at the crux of the terrible dysfunction that pervades our governmental institutions. As long as money is allowed to dominate politics, the public will continue to view politicians more as crooks than as leaders. When political entrepreneurship is replaced by public service, then policy on its merits might—





DOUBLE-TAKE?
R. M. HOLLAND

(Indicate page, name of newspaper, city and state.)

ORANGE COUNTY REGISTER
PG A3

(Mount Clipping in Space Below)

Governor's ally defends role in Lincoln case

Fund-raiser says he never used relationship to help troubled thrift

The Associated Press

SACRAMENTO — Gov. George Deukmejian's chief fund-raiser, who has been summoned to testify at a legislative hearing on Lincoln Savings & Loan Association, said in an interview published Sunday that his relationship with the governor never benefited the collapsed thrift.

"He is so innocent, as I am," said attorney Karl Samuelian in a Sacramento Bee interview. "It's regrettable that there should be any appearance or thought that anyone was doing anything that's improper."

As a lawyer for Charles H. Keating Jr., the Arizona millionaire who sought to avoid strict regulatory control of Lincoln Savings and Loan, Samuelian has come under scrutiny for his role in the nation's largest savings and loan failure.

Also Sunday, two of the five senators embroiled in the Lincoln Savings investigation denied that they had intervened improperly with banking regulators to keep the thrift open.

"Honesty and integrity are my life, and any implication that I've done something wrong is just flat wrong and I resent it with every fiber of my being," Sen. John Glenn, D-Ohio, said on ABC Television's "This Week with David Brinkley."

Glenn, one of whose political-action committees received \$200,000 from Keating, said he did not request any special favors and promptly closed his file on Lincoln in 1987 after regulators told him they planned to file criminal charges with the Justice Department.

Sen. John McCain, R-Ariz., said he attended a meeting in April 1987 with then-chief thrift regulator Edwin Gray partly because Alan Greenspan, a respected Wall Street economist who is now chairman of the Federal Reserve Board, had described Lincoln in a report as strong and viable.

McCain said he also was influenced by a report from accounting firm Arthur Young, which concluded that regulators were harassing and intimidating Lincoln, whose parent company, American Continental Corp., was a major employer in Arizona.

ABC said the other three senators who interceded on Keating's behalf — Democrats Alan Cranston of California, Dennis DeConcini of Arizona and Donald Riegle of Michigan — declined to be interviewed.

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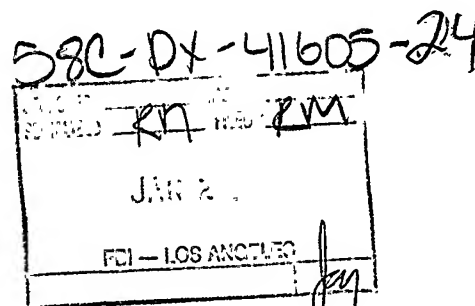
Samuelian is scheduled to testify before a state legislative committee Wednesday about his efforts to influence state decisions that permitted American Continental Corp. to sell high-risk, uninsured bonds through Lincoln branches.

Those bonds now are deemed worthless by attorneys for the purchasers, who have named Samuelian's law firm as a defendant in at least three class-action suits.

Samuelian, 57, acknowledged in the interview that his law practice has flourished since he became a prominent Republican fund-raiser and Deukmejian confidant. But he said the number of clients he represents before state agencies has not increased "in any significant way."

"It's helped my career," he said.

Reuters contributed to this report.



(Mount Clipping in Space Below)

Cranston defends Lincoln S&L help

Says regulators had vendetta against thrift

The Associated Press

SAN JOSE — Sen. Alan Cranston said he was convinced San Francisco-based federal regulators waged a "vendetta" against the savings and loan of Charles H. Keating Jr., and said he asked regulators to handle their investigation more fairly.

In a telephone interview with the San Jose Mercury News from Santa Barbara Monday, Cranston discussed his activity on behalf of Keating, a Phoenix, Ariz., resident facing multiple investigations. Keating also is accused in a federal government lawsuit of looting millions of dollars from Lincoln Savings and Loan.

"For God's sake," said the 75-year-old Cranston. "If a senator is not supposed to speak to regulators who are on

somebody's back, and seek to make sure they're being treated fairly, and to end the process, what is a senator supposed to do?"

Keating's thrift is in the midst of a taxpayer bailout that is expected to cost at least \$2.3 billion, the country's most expensive S&L bailout.

Cranston said he regretted none of his actions on behalf of Keating, and did not regret accepting \$970,000 for his political campaigns and favorite causes from Keating, his relatives and associates.

Cranston received \$850,000 for voter registration groups in 1987 and 1988, and another \$120,000 in 1986 for his re-election and for the California Democratic Party.

In his interview, Cranston said he wasn't alarmed to learn in 1987 that

Justice Department prosecutors would be asked to look at possible criminal activity involving Keating's thrift "because it's very often done by regulators. When they can't resolve something, and they're annoyed, they send it over to Justice. And often it's never heard of again."

A California senator since 1969, Cranston said he thinks the country's top thrift regulator, M. Danny Wall, acted correctly when he transferred jurisdiction of Keating's savings and loan from San Francisco to Washington, DC, in 1988.

"I think he probably did, since he knew there was a vendetta going on and didn't trust their (San Francisco's) judgment," Cranston said.

Some members of Congress have harshly criticized the move.

On Monday, Senate Majority Leader George Mitchell, D-Maine, became the latest high official to call for Wall's res-

ignation. However, a spokesman for the top regulator said Tuesday that Wall had no intention of resigning.

Nonetheless, pressure is growing on Wall. Today, leaders of three advocacy groups are expected to call for the ouster of Wall. They are Jim Davidson, chairman of the National Taxpayers Union; Joan B. Claybrook, president of Public Citizen, a group founded by consumer activist Ralph Nader, and Alan L. Keyes, president of Citizens Against Government Waste.

Rep. Henry B. Gonzalez, D-Texas, chairman of the House Banking Committee, has written to President Bush suggesting that Wall step aside. The president's response has been less than warm support.

"If part of the savings and loan problem proves to be management or regulation people that aren't aggressive enough, the answer will be yes," Bush said when asked about Gonzalez' letter.

(Indicate page, name of newspaper, city and state.)

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LOS ANGELES TIMES

PG A1

Date: 11/29/89

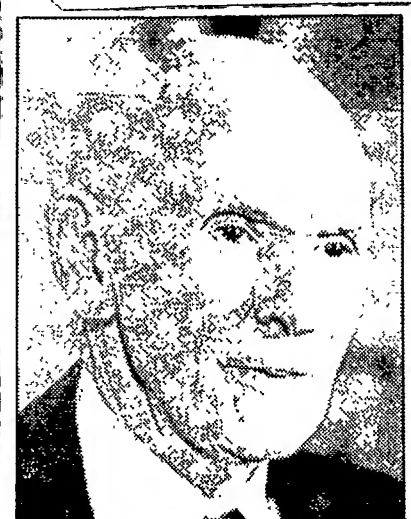
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Associated Press

Sen. Alan Cranston

have been implicated in the scandal—including Keating, the four other senators, former Federal Home Loan Bank Board Chairman Edwin J. Gray or M. Danny Wall, director of the Office of Thrift Supervision, the successor agency to FHLBB.

Although Keating currently is under investigation by the Justice Department and the Securities and Exchange Commission for his stewardship of Lincoln, Cranston said it is too early to judge whether the Lincoln owner did anything wrong. "We'll have to wait and see," he said.

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JAN 2 1990

FBI — LOS ANGELES

Cranston Says Lincoln Charges Are 'Ridiculous'

By SARA FRITZ
TIMES STAFF WRITER

Sen. Alan Cranston (D-Calif.), defending himself after weeks of silence about his efforts on behalf of Lincoln Savings & Loan, declined Tuesday to blame anyone—including owner Charles H. Keating Jr.—for the \$2-billion collapse of the Irvine thrift.

In an interview, Cranston characterized allegations of wrongdoing by him as "ridiculous" and expressed hope that the controversy will be laid to rest before he seeks reelection in 1992. But he acknowledged that the matter already has diverted his attention and has interfered with fund raising for his reelection drive.

"I know my opponent will resur-
Please see LINCOLN, A20

Continued from A1

rect it," he said. "Obviously, my opponent will have an unpleasant 30-second television spot about it."

Until now, Cranston has declined to be interviewed while the House Banking Committee conducted six weeks of hearings that focused increased attention on the efforts of five senators to intervene with federal regulators on Keating's behalf during an early investigation of Lincoln.

The 73-year-old senator said he has refused to talk about it for the past two months because he was preparing his legal response, which was presented to the Senate Ethics Committee last week, and because he was "getting tired" of the persistent questions of reporters. In addition, he conceded he was upset by the embarrassing testimony before House committee hearings.

"Now that's over, and I've had a few days' rest and I'm ready to address it again," he said, vowing to defend himself as aggressively as possible in the days to come.

On Monday, Cranston was asked about the Keating affair by a constituent only once during a series of forums he held in Santa Barbara—his first public appearances in California since Congress recessed last week. He responded with a forceful, 5-minute defense of his actions that drew mild applause from the audience of about 250 persons.

Cranston and four other senators—Dennis DeConcini (D-Ariz.), Donald W. Riegle Jr. (D-Mich.),

FAMILY AFFAIR

Keating's brother runs finances for Detroit's JOA papers. D1

LOSSES MOUNT

\$60-million loss puts Lincoln down \$877 million for year. D5

John Glenn (D-Ohio) and John McCain (R-Ariz.)—have been accused of interfering with a federal investigation of Lincoln in exchange for thousands of dollars in political contributions from Keating, a wealthy Arizona businessman.

The four-term California senator rejected the statements of three elderly California women who had told the House Banking Committee that they hold him personally responsible for the losses of \$200 million suffered by 24,000 investors who purchased insured junk bonds at offices of Lincoln. The bonds are now worthless and investors are suing Keating for repayment.

Cranston said he is not responsible either for the fraudulent bond sales or for the collapse of Lincoln last April, which is expected to cost the American taxpayers \$2.3 billion to repay insured depositors. "It's all ridiculous," he said, referring to their efforts to blame him.

At the same time, Cranston said he would not engage in "finger pointing" or blame others who

(Indicate page, name of newspaper, city and state.)

The senator said he still believes that Lincoln was being unfairly harassed by federal regulators in 1987 when he contacted Gray at Keating's request. He added that Keating never asked him to do anything as a "quid pro quo" for his generous contributions.

Nor would Cranston join in the chorus of Democrats in Congress—including Senate Majority Leader George J. Mitchell (D-Me.)—who are calling on President Bush to oust Wall as the nation's chief thrift regulator for his failure to act sooner to halt the alleged fraud and mismanagement by Keating at Lincoln.

Rather, Cranston said Wall deserves credit for deciding last April that the federal government should seize Lincoln to stop the loss of federally insured deposits. "He's the one that finally took matters into his own hands in Washington and found the evidence that he felt was needed and made a decision," Cranston declared.

But the senator's vow to avoid finger pointing was sorely tested when it came to the subject of Gray, who has been his chief accuser. Gray, who met with the senators in April, 1987, when he was head of the bank board, has accused them of improperly trying to influence the investigation of Lincoln.

Cranston said Gray shares "some culpability" because he headed the bank board at the outset of the investigation of Lincoln. The sena-

tor's aides have speculated that Gray, a former press secretary for Ronald Reagan, is trying to get even with Cranston for his criticism of the former California governor and President dating back to 1966.

The senator expects to be cleared of any wrongdoing by the Senate Ethics Committee. "I expect they will find that I did nothing improper—that I violated no rule, no law," he said.

And he predicted that the panel's findings would help him get beyond the scandal by the time he faces reelection. "This may go away by then if the Ethics Committee comes out with the sort of decision I anticipate and if my message gradually gets through," he said.

ing in Spa

Cranston plans to run an effective, well-financed reelection campaign, even though the Keating case already has "diverted my attention" away from fund raising, he said. "It's slowed down a bit," he said of his recent fund raising, "but we'll be in good shape . . . And some people have contributed to me because of this—because they want to show friendship."

Cranston's defense of himself is based primarily on the testimony of both Gray and Wall, who told the House committee that the senators' intervention did not affect their handling of the Lincoln case in any way. He insists that he never asked the regulators for leniency for Lincoln but only requested that the probe of Lincoln be brought to a speedy conclusion.

"When you are asking them to make a decision, how can you be blamed for the fact that they didn't make a decision," Cranston asked.

He also argued that members of Congress are expected to intervene with the government on behalf of constituents who have a legitimate complaint about bureaucratic red tape. This, he said, is no different than what former President Reagan often promised to do—"to get government off the backs of the people."

Cranston said he did not know at the time he contacted the regulators for Keating that worthless junk bonds were being sold at Lincoln offices to many people who mistakenly believed their investment was insured by the government. He said he did not learn about the bonds until earlier this year.

Even when Lincoln was seized by the government last April 14, Cranston admitted, he told Wall he feared the regulators were making "a mistake." He said he felt the government should have permitted Keating to sell Lincoln.

"I would do most of what I did again, knowing what I knew at the time," he said. "In hindsight, I wouldn't do it if I had known all the facts. But given what I knew at the time, I think it was the appropriate thing to do."

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(Mount Clipping in Space Below)

Cranston defends Lincoln actions

SAN JOSE (AP) — Sen. Alan Cranston said he was convinced San Francisco-based federal regulators waged a "vendetta" against the savings and loan of Charles H. Keating Jr., and said he asked regulators to handle their investigation more fairly.

In a telephone interview Monday with the *San Jose Mercury News*, Cranston discussed his activity on behalf of Keating, a Phoenix, Ariz., resident facing multiple investigations. Keating also is accused in a federal government lawsuit of looting millions of dollars from Lincoln Savings and Loan.

"For God's sake," said the 75-year-old Cranston. "If a senator is not supposed to speak to regulators who are on somebody's back, and seek to make sure they're being treated fairly, and to end the process, what is a senator supposed to do?"

Keating's thrift is in the midst of a taxpayer bailout that is expected to cost at least \$2.3 billion, the country's most expensive S&L bailout. Cranston said he regretted none of his actions on behalf of Keating, and did not regret accepting \$970,000 for his political campaigns and favorite causes from Keating, his relatives and associates.

Cranston said he wasn't alarmed to learn in 1987 that prosecutors would be asked to look into possible criminal activity at the thrift.

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FRONT SECTION, PAGE 10

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(Mount Clipping in Space Below)

Thrift Owner Called a 'Con Man'

By RALPH FRAMMOLINO
and PAUL JACOBS
TIMES STAFF WRITERS

SACRAMENTO—Lincoln Savings & Loan owner Charles H. Keating Jr. was a "con man" who relied on lies and political influence—"juice"—to fool and bully regulators in charge of his ill-fated Irvine-based thrift, California Savings and Loan Commissioner William J. Crawford told an Assembly committee Wednesday.

The committee also heard Gov. George Deukmejian's top campaign fund-raiser, Los Angeles attorney Karl M. Samuelian, defend his actions as one of Keating's attorneys, hired to represent the Arizona businessman's interests before state regulators. Samuelian said he recommended the appointment of two successive state corporations commissioners—both of whom subsequently approved the sales of high-risk junk bonds by Lincoln's parent corporation.

Samuelian, Deukmejian's campaign finance chairman since 1982, also said that he represented Keating at several meetings with state regulators. After the hearing, Samuelian told reporters that he helped set up meetings between Keating and the regulators' boss, Business, Transportation and Housing Secretary John K. Geoghegan.

But it was Crawford's blunt remarks about Keating's tactics and demeanor that provided the most provocative testimony Wednesday before the Assembly's Finance and Insurance Committee.

Asked for a simple explanation of why Lincoln Savings failed, prompting a federal takeover in April that could cost taxpayers more than \$2 billion, Crawford said: "If I had to pick one reason, I would

have to say that probably the owner was a con man.

"He was a dominant person who believed that he was above the law and regulations, that he was powerful and he had the juice and he could win. He could fight the regulators, and he did a very good job of it."

When Keating first took over Lincoln in February, 1984, he told state regulators one thing but all along planned to do another, Crawford said.

"They said they were going to run a traditional savings and loan. They lied to us," Crawford said.

Instead, Crawford said, Keating used Lincoln's citizen deposits and sales of high-risk bonds as sources of cash for marginal land acquisitions in Arizona, Colorado, Texas and Louisiana. Crawford said that when he took over the department in 1985, he found that his predecessor had allowed Keating to keep the original records of Lincoln Savings in Phoenix, leaving only incomplete copies of documents for California regulators in the Lincoln offices in Irvine.

Crawford said he ordered Lincoln's files to be brought back to California after he discovered Keating had contributed \$50,000 to Arizona's attorney general in an uncontested race—a move that persuaded him that any action by California regulators would be resisted by their counterparts in Arizona. He also said regulators needed the centralized files to help keep up with Keating's financial empire, which expanded from 32 corporations in 1984 to 54 entities by the end of 1987.

"That was 54 places to hide the smoking gun," said Crawford, who added: "We were never on top of the problems of Lincoln Savings. They could write up [the value of] their assets faster than you could write them down."

He said the task was made even more difficult by the phalanx of Keating employees and attorneys, who overwhelmed understaffed regulators. Crawford said he tried to keep tabs of Lincoln with only one experienced examiner and two trainees.

"They [Lincoln and American Continental] had a battery of people. They had 48 CPAs, they had 15 attorneys on staff. I just lately learned they employed 77 outside law firms," Crawford said.

Referring to a Home Loan Bank Board memo that said Keating had attempted to have him fired, Crawford said he did not know of any such effort but added that he, like federal regulators, felt "beat up" by the Arizona businessman.

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES
LOS ANGELES, CA
THURS., NOV. 30, 1989
DAILY PGS. A3 & A32

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'Proof of the Pudding'

But he insisted that no one from Deukmejian's office tried to influence his handling of Lincoln.

"He had the juice [but] he didn't have it on a direct line from the governor to me. I'm still here, and that's proof of the pudding, I think," Crawford said.

The committee's chairman, Assemblyman Patrick Johnston (D-Stockton), expressed concern about allegations that Keating and his associates used political connections to influence state regulators.

Keating was invited to attend the committee hearing but did not respond, Johnston said.

Deukmejian fund-raiser Samuelian, however, said he has never contacted the governor on behalf of any client.

"As far as the governor is concerned, I have religiously for 10 years separated my business matters from my [campaign] assistance to the governor," he said.

Samuelian outlined 1986 and 1987 contributions to Deukmejian's campaign committee from Keating's companies, relatives and business associates totaling \$150,000, plus an additional \$100,000 to Republican fund-raising efforts in California that Samuelian collected.

However, he denied ever "lobbying" for Keating or his companies.

"We were representing a client as a lawyer, not doing any lobbying work," Samuelian said.

After the hearing, Samuelian said he helped set up Keating's meetings in February and March, 1988, with Transportation and Housing Secretary Geoghegan, a Deukmejian appointee whose agency oversees the state's savings and loan and corporations regulators.

Samuelian also revealed to the committee Wednesday that he had recommended that Deukmejian appoint two former law associates, Franklin Tom and Christine W. Bender, as corporation commissioners. The governor named Tom first, and then Bender succeeded him.

Both Tom and Bender approved the sale of controversial high-risk bonds issued by American Continental and sold through Lincoln's branches.

After Tom left his post as commissioner, he rejoined Samuelian's law firm and represented Keating's position in meetings with Bender, his successor and former deputy.

Wording Deleted

Also during the hearing, state savings and loan examiner Richard Newsom said the state attorney general's office deleted wording in a December, 1988, cease-and-desist order against American Continental that could have warned investors not to buy the company's high-risk junk bonds.

Newsom said the wording would have been the "atomic bomb" to end the junk bond sales, which continued through early 1989. But, he added, the attorney general balked at including the language because his office lacked the expertise to defend the state on a court challenge over securities matters.

However, Newsom's testimony

was immediately refuted by both Atty. Gen. John K. Van de Kamp and an attorney for the Savings and Loan Department. The attorney, Shirley Thayer, said she and others in the department made the decision to drop the language, not Van de Kamp.

In Washington, meanwhile, White House spokesman Marlin Fitzwater said President Bush had no immediate plans to oust M. Danny Wall, the embattled chairman of the office of thrift supervision.

Wall, who previously headed the Federal Home Loan Bank Board, is under fire for not acting on a recommendation by regional regulators to seize Lincoln in 1987. The government did not take control of the thrift until last April, and critics contend that the delay greatly increased the eventual cost to taxpayers.

Asked at a press briefing if the White House planned to fire Wall, Fitzwater replied: "No, there's been no consideration of Mr. Wall's tenure. He's serving on the [office of thrift supervision] board, and there's been no change."

Calls for Wall's resignation have increased in recent days. On Wednesday, three nonprofit organizations—the National Taxpayers Union, Public Citizen and Citizens Against Government—sent a letter to Bush urging him to oust Wall.



William J. Crawford

Associated Press

Deukmejian confidant

tells of Lincoln role

Samuelian lobbied ex-partner to win state approval of bonds

By Chris Knap
The Register

SACRAMENTO — Gubernatorial fund-raiser Karl Samuelian recommended his former law partner for the job of corporations commissioner, then lobbied her to permit the sale of uninsured bonds by his client American Continental Corp., he testified Wednesday.

American Continental, the parent firm of Irvine-based Lincoln Savings and Loan, went bankrupt less than a year after Commissioner Christine Bender approved the sale, leaving 23,000 Californians holding \$200 million in worthless debentures.

Samuelian also disclosed that he attended at least three meetings with state officials and helped set up cabinet meetings for his client.

During one such meeting, American Continental chief Charles Keating suggested to Business Secretary John Goeghegan that Savings and Loan Commissioner William Crawford should be replaced with a less-zealous regulator, Goeghegan has said.

Despite those disclosures, Samuelian said he and his law partners could not be blamed for investors' losses.

"Our job was strictly to file the

necessary papers," he said.

Samuelian was described Wednesday by the governor's office as a "friend (of Gov. George Deukmejian) and a key political adviser."

As campaign finance director for Deukmejian in 1986, Samuelian collected \$172,000 from Keating, his friends and business associates, plus \$100,000 for a national Republican committee called Victory '88, according to Samuelian's testimony and state campaign finance records.

Samuelian's testimony before a state Assembly committee was his first public explanation of his role in the \$2 billion collapse of Lincoln, now a nationwide symbol of the savings and loan deregulation debacle.

Absent from the hearing were committee members Pat Nolan, R-Glendale, and Tom Bane, D-Van Nuys, sponsors of the 1983 bill that deregulated state thrifts. The pair has received \$41,000 in contributions from Lincoln.

State regulators testified Wednesday that they knew Lincoln Savings and Loan was "about to go over the cliff," but influential lobbying, bureaucratic snafus and fear of legal entanglement kept

newspaper, city and state

ORANGE COUNTY REGISTER
pg A3

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them from halting the collapse.

For example, Department of Savings and Loan senior examiner Richard Newsom testified Wednesday that he tried to get language included in a 1988 cease-and-desist order that would have attacked the credibility of the prospectus for American Continental's junk bonds.

Newsom said the language would have been "an atomic bomb" that would have made it difficult for American Continental to continue the bond sales.

But attorneys in the Department of Savings and Loan and the Attorney General's Office conferred and decided to remove the language.

"The laws favor the entrepreneur," Crawford testified. "You can't take (their thrifts) away without due process. Due process sometimes means no process. Every time you try to take aggressive action you talk to your attorneys, and they say 'Why do you want to do that?'"

Crawford, who described Keating as a "con man," was praised by the committee. But former Corporations Commissioner Franklin Tom and Commissioner Bender were criticized for their role in allowing the sale of the "junk bonds," many of which were sold to unsophisticated investors from desks set up in Lincoln branches.

Tom and Bender were named commissioners after recommendations from Samuelian, their law



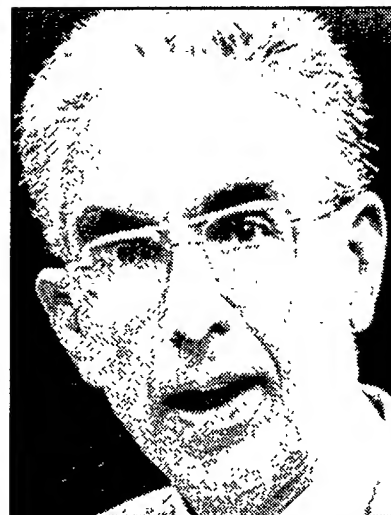
Christine Bender
Lobbyist's ex-partner OKd bonds

partner.

Tom apparently incriminated himself when he testified that he called an assistant commissioner in March 1987 to "assure prompt consideration" of the American Continental application.

The Department of Corporations conflict-of-interest code prohibits a former commissioner from representing an applicant before the department for a period of one year. Tom had resigned as commissioner and returned to Samuelian's law firm less than one month before the phone call.

Tom said he forgot to disclose the contact with Assistant Commissioner Jerry L. Baker in his testi-



Karl Samuelian
Lobbied on behalf of Lincoln parent

mony before the committee in August. But he insisted that he had done nothing wrong in making that "procedural-type request," nor in making a previously disclosed phone call to a lower-level regulator in San Francisco.

But committee chairman Pat Johnston, D-Stockton, said Tom's action "violates the (conflict-of-interest) regulation" and that he would turn over a report to the Fair Political Practices Commission.

Johnston ridiculed Tom's "procedural-request" explanation, saying, "Surely Mr. Tom, you were not asking for prompt consideration in order for them to reject it."

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Riegle Says Media Misreports Probe of Lincoln Savings

From Associated Press

WASHINGTON—Sen. Donald Riegle (D-Mich.) defended his involvement with Lincoln Savings & Loan Assn. on Wednesday and accused the news media of ignoring evidence that he did not influence regulators to delay closing the failed thrift.

"A lot of the press stories have been based on the false notion that senators or others in Congress had somehow influenced the process, and that's not true," Riegle said.

Congressional testimony that Riegle said clears him and four other senators of wrongdoing has been played down in news accounts because "it basically blows away the story."

Riegle, chairman of the Senate Banking Committee, has said little publicly about his role in the battle between federal regulators and Lincoln, which the government seized in April.

The Senate Ethics Committee has hired an outside lawyer to examine allegations that five senators improperly intervened with regulators on Lincoln's behalf. The senators are Riegle, Alan Cranston (D-Calif.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Dennis DeConcini (D-Ariz.).

Indicate page, name of newspaper, city and state.

Date:
Edition:

LOS ANGELES TIMES
LOS ANGELES, CA
THURS., NOV. 30, 1989
DAILY PG. A32

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RIEGLER SAYS MEDIA
MISREPORTS PROBE OF
LINCOLN SAVINGS

Character:
or

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80-33B

Submitting Office:

LOS ANGELES

Indexing:

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State pulled into Lincoln controversy

Attorney General's Office accused of blocking order

By JAMES W. SWEENEY
Daily News Sacramento Bureau

SACRAMENTO — The state Attorney General's Office blocked a regulatory order that "would have dropped an atomic bomb" on junk bond sales by collapsed Lincoln Savings, according to testimony at a legislative hearing Wednesday.

Richard Newsom, a state Department of Savings and Loan examiner, said that the order would have disclosed insider trading violations by Lincoln officials and halted the sale of more than \$10 million in now-worthless bonds.

Newsom said that the December 1988 order was scaled back at the request of the Attorney General's Office to cover only unsafe loan practices and that Lincoln continued to sell the uninsured junk bonds until it was seized by federal regulators in April.

Attorney General John Van de Kamp denied that his department ignored the request, saying attorneys for the Savings and Loan Department decided on their own to remove the insider-trading language from the regulatory order.

In a written statement, Van de Kamp said that his office told the Savings and Loan Department it "would pursue whatever action the department chose to file, but asked whether the department was sufficiently sure of its facts."

Van de Kamp, who is seeking the Democratic nomination for governor, opened a criminal investigation last week into whether Lincoln Savings and Loan employees sold uninsured securities to 23,000 Californians without a license.

Newsom's testimony came during a three-hour hearing by the Assembly Finance and Insurance Committee, chaired by Patrick Johnston, D-Stockton. Other developments at Thursday's hearing included:

■ Former state Corporations Commissioner Franklin Tom testified that he contacted his former deputies on behalf of Lincoln a few weeks after leaving office, an apparent violation of state lobbying regulations. Johnston said that he will ask the Fair Political Practices Commission to investigate Tom, now a Los Angeles attorney.

■ Los Angeles attorney Karl Samuelian, chief fund-raiser for Gov. George Deukmejian, said that he helped arrange a meeting with a top administration official where Lincoln owner Charles H. Keating Jr. asked the state to relax its investigation. Keating, his company and his business associates have contributed more than \$200,000 to Deukmejian and the state Republican party through Samuelian.

■ California Corporations Commissioner Christine Bender, a former law partner of Samuelian and Tom, said that she did not consider warnings about Lincoln from state and federal savings and loan regulators sufficient to reject its proposal to sell junk bonds through its 29 branches.

Before it was shut down last spring, Lincoln sold about \$200 million worth of the uninsured bonds issued by its parent company, American Continental Corp. of Phoenix, Ariz. to 22,000 mostly elderly customers.

Those bonds — formally known as subordinated debentures, meaning all other debts must be paid ahead of them — became virtually worthless when American Continental Corp. declared bankruptcy the day before Lincoln was seized.

Unlike regular deposits, the bonds are not covered by federal insurance.

Newsom, the state savings and loan examiner, said that he discovered "flagrant, unsafe lending practices" as well as violations of federal insider trading laws when he audited Lincoln in 1988.

Testifying before the Assembly Finance and Insurance Committee, Newsom said that he found "outright theft of \$20 million followed by lying to shareholders" in the purchase by Keating of the plush Ponchatrain Hotel in De-

troit.

Newsom said that Lincoln funds were used to finance deals structured to personally benefit Keating and other officials and that funds from bond sales — the only new cash in the final weeks before seizure of Lincoln — were used to buy back company stock held by Keating and other officials.

Both the unsafe loans and the securities-fraud allegations were included in a proposed cease-and-desist order that Newsom submitted to Savings and Loan Department attorneys in November 1988.

Had the order been issued, he said it "would have dropped an atomic bomb" on the bond sales.

But, Newsom testified that he understood that the securities-fraud allegations were deleted from the order after a deputy attorney general questioned whether there was sufficient evidence to defend the order in court.

Van de Kamp denied that contention in a written statement, and deputy Attorney General R.H. Rehm said that Savings and Loan Department attorneys called him with concerns about the securities-fraud allegation.

Shirley Thayer, the Savings and Loan Department attorney who placed the call to Rehm, could not be reached for comment. But Savings and Loan Commissioner William J. Crawford said that he supported the decision to scale back the regulatory order.

The Savings and Loan Department was one of two state agencies involved in investigations of Lincoln and the sale of American Continental Corp. bonds through Lincoln branch offices.

The other is the Corporations Department, whose head was sharply criticized by Finance and Insurance Committee chairman Johnston for approving the bonds sales beginning in 1987 and renewing the authority in 1988.

Bender said that she was aware of critical reports by state and federal regulators, but noted that the Federal Home Loan Bank Board in Washington had overruled the report of its San Francisco branch and ordered a new investigation.

"A regulator, the commissioner, weighed the recommendations of the Federal Home Loan Bank Board and the state Savings and Loan Department and accepted the recommendations of a very influential law firm and a Phoenix corporation," Johnston told reporters after the hearing.

Noting the ties between Bender and her former law partners Samuelian and Tom, Johnston said that Keating "shrewdly used the right kind of lawyers and lobbyists to make himself a big man in Washington and Sacramento."

Bender replaced Tom as corporations commissioner in February 1987 when he returned to the Samuelian law firm. Within the next three weeks, he made two phone calls to Corporations Department officials on behalf of Lincoln.

Date page, name of newspaper, city and state.)

DAILY NEWS

SAN FERNANDO, CA

Date: THURS., NOV. 30, 1989
Edition: VALLEY PGS. 1 & 18

Title: STATE PULLED INTO LINCOLN CONTROVERSY

Character:

or

Classification:

Submitting Office:

LOS ANGELES

Indexing:

Tom said the calls — one seeking transfer of the Lincoln Tile from San Francisco to Los Angeles and the other asking for an expedited decision on allowing the bond sales — were procedural and not substantive.

But Johnston said that they violate a state regulation barring Corporation Department officials from lobbying their former agency for one year after resigning, adding that he will refer the case to the FPPC.



John Van de Kamp
Attorney general

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DAILY NEWS
SAN FERNANDO, CA
THURS., NOV. 30, 1989
VALLEY PG. 18

Date:
Edition:

Title: CRANSTON SAYS HE WON'T
RESIGN OFFICE; EXPECTS
RE-ELECTION

Character:
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LOS ANGELES

Indexing:

Cranston says he won't resign office; expects re-election

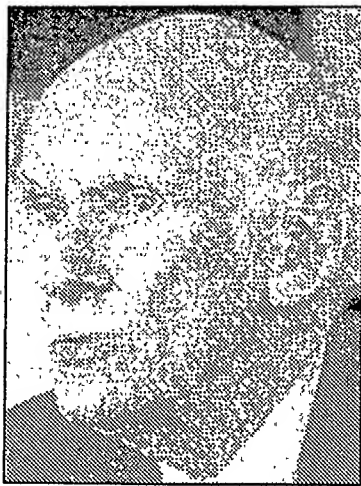
By PATRICK McGREEVY
Daily News Staff Writer

UNIVERSAL CITY — Sen. Alan Cranston said Wednesday that he expects to be re-elected in spite of political damage from his actions on behalf of financier Charles H. Keating Jr. before the failure of Lincoln Savings and Loan.

"What I'm finding now is that some people are holding back on support but others are being more vigorous in their support," the California Democrat told reporters at Universal Studios, where he participated in a panel discussion on the drug problem.

Cranston, who first won election to the Senate in 1968, would be up for re-election in 1992.

The Senate Ethics Committee has retained counsel to examine whether Cranston and four other senators intervened improperly with federal regulators on behalf of Lincoln Savings and Loan Association.



Alan Cranston
Expects to be re-elected

The 73-year-old Cranston, on a week-long swing through his home state, dismissed suggestions by some political figures that it is time for him to consider resigning. He also denied that the Keating controversy is evidence that he has grown complacent about ethics while serving 21 years in the Senate.

"I, of course, will not resign because I've done nothing improper," Cranston said in response to a suggestion this week by Republican State Chairman Frank Visco.

Political consultant Harvey Englander, who has worked on Democratic campaigns, also said Wednesday that Cranston should consider leaving office.

Cranston denied that he has spent too much time in office and, as a result, has grown sloppy on ethics.

"It's up to the people to determine how long they wish someone to stay in office but I don't think it is arrogant to help a constituent who appears to be having a problem," Cranston said.

The five senators including Cranston received \$1.3 million in political contributions from Keating, who is chairman of Lincoln's parent company.

In 1987, Cranston and his colleagues met twice with federal regulators who were investigating Lincoln's finances. A

month later, the investigation was transferred to another office, resulting in a two-year delay in the government seizing the institution.

One of the regulators who met with Cranston, Edwin J. Gray, has said that Cranston is one of the senators most culpable for delaying the examination of Lincoln.

Cranston said that later public statements by Gray, former head of the Federal Home Loan Bank Board, have contradicted Gray's early testimony to Senate investigators.

"When Ed Gray was under oath he testified — and he'd be committing perjury if this was untrue — that I was largely silent in the meeting with him and that all I asked was why this (investigation) was taking so long," Cranston said. "I know Gray is the man who was on the watch when all of this tragedy at Lincoln Savings began and he's trying to divert attention by finger-pointing at others."

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Deukmejian Defends Samuelian

■ **Politics:** Governor says his friend and fund-raiser was simply doing an attorney's job in representing Lincoln S&L before state regulators.

By RICHARD C. PADDOCK
and PAUL JACOBS
TIMES STAFF WRITERS

LAS VEGAS—In a strong defense of an old friend and chief fund-raiser, Gov. George Deukmejian said Friday that Los Angeles attorney Karl M. Samuelian acted "in a totally ethical and legal fashion" in representing troubled Lincoln Savings & Loan and its owner, Charles H. Keating Jr., before state regulators.

Samuelian "never discussed his work on behalf of his clients, or any other clients for that matter, with me or people in the governor's office," Deukmejian said in an interview with The Times, while attending the Western Governors Assn. conference. "He was simply doing a job as an attorney for a client."

The governor's remarks were his first detailed public statements in defense of Samuelian, who along with other members of his law firm represented Lincoln and its parent company, American Continental Corp., before state regulators.

Samuelian himself was present during meetings with the regulators, who eventually approved an application by American Continental to issue high-risk junk bonds that were sold through the S&L's branches.

In addition, Samuelian has said that he helped arrange meetings between Keating and Business, Transportation and Housing Secretary John K. Geoghegan—a member of Deukmejian's cabinet whose agency oversees the state's savings and loan and corporations commissioners.

The Arizona-based Keating, his companies, business associates and family have contributed \$153,000 to Deukmejian campaign committees. Keating and his companies also contributed \$100,000 through Samuelian to a statewide Republican fund-raising effort in 1988.

In April of this year, American Continental went into bankruptcy, leaving an estimated 23,000 investors—many of them retirees—holding worthless bonds that they had purchased for \$250 million. A federal takeover of Lincoln is expected to cost taxpayers more than \$2 billion.

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES
Date: SAT. DEC. 2, 1989
Edition: Front Section, Page A36

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or
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Deukmejian expressed concern that a political ally has been subjected to increasing criticism for simply representing a controversial client: "We expect people to be involved politically and be involved in their government and then, at the same time, when somebody does get involved and does express this kind of interest [in elective politics], they shouldn't be penalized for doing it."

"They shouldn't be prohibited from conducting—in this case—their law practice, as long as they are doing it in an ethical fashion and a legal fashion," said Deukmejian, himself an attorney.

"And from everything I've heard about this up to this point, I'm satisfied that Karl [Samuelian] did act in a totally ethical and legal fashion on behalf of the client," the governor said.

Deukmejian said that much of the information about Keating and his enterprises that has emerged from congressional and legislative hearings was "probably news to him [Samuelian] as well. When you are retained by somebody, you don't conduct an investigation at the time you are asked to represent the client as to all the dealings the client is involved in."

When asked whether Keating had tried to take advantage of

Samuelian's closeness to the governor in choosing a law firm to represent him in California, Deukmejian said: "I don't care who it is, if you have a matter before a government agency or regulator, you want to have representation that you believe will put forward your position in the most effective manner possible."

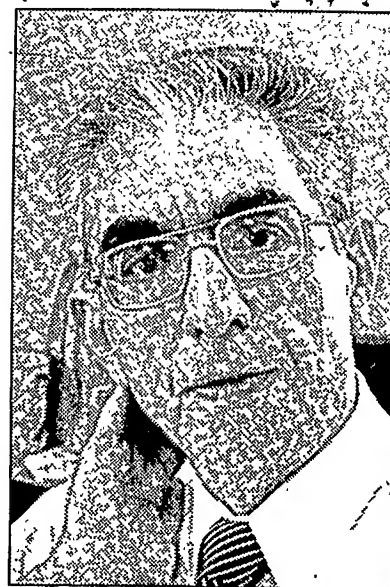
Might Keating have been influenced by the fact that both the current state corporations commissioner, Christine W. Bender, and her predecessor, Franklin Tom, had worked in Samuelian's law firm? "I would imagine that Keating probably considered that at the time," Deukmejian said.

In testimony this week before a legislative committee, Samuelian said that he and Deukmejian met for the first time at a church banquet in 1971. He said he hosted his first fund-raising dinner for Deukmejian in 1978 when Deukmejian was a successful candidate for state attorney general.

By 1982, when Deukmejian was the Republican candidate for governor, Samuelian became his campaign finance chairman.

In his legislative testimony, Samuelian expressed concern about the 23,000 Californians who had lost their investments because of the collapse of American Continental. "I appreciate the problem," Samuelian said. "It's a horrible problem. But I don't feel that our firm or our representation was responsible in any way for it."

Paddock reported from Las Vegas and Jacobs from Sacramento.



Karl M. Samuelian

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Institute Keating helped

fund to shut down

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PHOENIX GAZETTE

pg. F4

Date 12/6/89
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By Joan Mower
The Associated Press

WASHINGTON — The Forum Institute, which received hundreds of thousands of dollars from Charles H. Keating Jr., a key figure in the nation's savings and loan scandal, is suspending operations.

"Given all the proceedings, given the involvement of (Sen. Alan) Cranston and Keating, the board thinks it's best they suspend operations on January 1," William Jeffress, an attorney for the politically liberal grant-giving institution, said Tuesday.

Cruz Reynoso, a former California Supreme Court justice and member of the institute's board, said, "The whole publicity has made it very difficult to raise money."

Reynoso also said the Center for Participation in Democracy, a Los Angeles-based voter registration group Cranston helped set up, is not "actively soliciting resources." Reynoso, chairman of the center's board, said directors planned to discuss the center's future at the next meeting.

Several of the Forum Institute's board members refused to talk about the group, referring all telephone calls to Jeffress. "We're all caught up in this, and it's a very touchy situation," said Roberta Greene, a board member and the institute's former deputy director.

Keating, the Phoenix millionaire who headed

American Continental Corp. and its subsidiary, the collapsed Lincoln Savings and Loan Association, contributed \$325,000 to the institute over two years, Jeffress said.

Jeffress said he did not know why Keating gave to the Forum Institute, but, "I assume Keating first learned of the activities through Cranston or through Rob Stein." Stein is a former consultant to the Democratic Party.

The non-profit, tax-exempt institute, created in 1981 by Stein, is an organization that "gives grants to groups that encourage voter participation and public education," records indicate.

An examination of the institute's Internal Revenue Service documents, testimony from the House banking committee's hearings on Lincoln, and Cranston's financial disclosure forms show an interlocking network of ties between Cranston, Keating and Stein and organizations with which they were affiliated.

Cranston, D-Calif., a strong supporter of efforts to register new voters, is one of five senators under investigation by the Senate ethics committee for accepting campaign contributions from Keating while at the same time intervening with federal regulators seeking to curb Lincoln's lending practices. He had denied any wrongdoing.

The Lincoln failure, which is the subject of numerous federal and state investigations, is expected to cost taxpayers up to \$2.5 billion, the largest single thrift collapse.

The Forum Institute raised \$2.1 million in 1988, about \$300,000 more than the previous year, the group's IRS records show. Among the grants the institute handed out were roughly \$305,000 in 1987 and 1988 to the Center for Participation in Democracy.

The forum also gave grants to projects dealing with clean air, youth and leadership training.

The center, a voter registration group founded by Cranston's son, Kim, with help from his father, also received \$400,000 from Keating in February 1988, according to Cranston's spokesman, Murray Flander.

Flander said Cranston, who has a personal passion for registering new voters, traveled around the country raising money for his cause, including money from Keating.

"As far as Alan is concerned, this is a good cause," Flander said. Cranston first met Keating either in 1985 or 1986 and learned that the Phoenix businessman contributed to a range of causes, from anti-pornography drives to Mother Teresa's projects, Flander said.

Cranston then sought money from Keating for the Forum Institute, the Center for Participation in Democracy and USA Votes, a project of Stein's company, New Dimension Resources Inc., Flander said.

New Dimension paid for more than a dozen trips for Cranston to travel around the country raising money for voter drives in 1988.

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S&L, Parent Firm Reportedly Gave State GOP \$95,000

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Lincoln Savings & Loan and its parent company contributed \$95,000 in "soft money" to the California Republican Party during the last election, even as the Irvine thrift was piling up \$2 billion in federally insured losses, according to a study released Tuesday.

The contributions constituted an act of political bipartisanship by the parent firm, American Continental Corp., which previously had contributed \$85,000 to the California Democratic Party in 1986 at the request of Sen. Alan Cranston (D-Calif.).

Soft money is a term used to describe contributions to state and local political activities, such as voter registration and get-out-the-vote drives, that are not subject to the contribution limits

contained in federal election law.

At the time the money was contributed to the state GOP, American Continental Chairman Charles H. Keating Jr. was battling with state and federal officials for permission to continue the risky investment practices that eventually led to Lincoln's collapse. The Administrations in both Washington and Sacramento are Republican.

An Arizona Republican, Keating has stated that he expected his political contributions to win him influence with government policymakers. At least three members of Congress have returned Keating's donations since Lincoln was seized by the federal government last April.

Keating's contributions to the California GOP were disclosed in a new survey of soft-money donations in nine states by the Center for Responsive Politics.

The Center for Responsive Politics found that the California GOP took in \$5.8 million and the state Democratic Party received \$4.4 million in 1988—making them the two biggest single recipients of soft money in the survey.

Critics contend that soft money contributions have become a back-door way for corporations and unions to continue giving to federal campaigns after their political action committees have already donated the maximum amounts permitted under federal law.

It is not known precisely how much soft money was raised in 1988. But the national Republican and Democratic parties estimated that they distributed more than \$40 million in soft money and the center found evidence of at least \$28 million spent in nine key states in the presidential contest between George Bush and Michael S. Dukakis.

While federal election laws prohibit individuals and corporate political action committees from making contributions in excess of \$2,000, the center found that more than 100 corporations and individuals made soft-money donations in nine key states. In California, seven people contributed at least \$100,000 each, and 82 gave \$20,000 or more.

Among the big contributors to the California GOP were Marvin Davis of Los Angeles, head of an oil, communications and investment firm, who gave \$110,000; Atlantic Richfield, \$139,500, and the William Lyon Co., an Orange County builder in Newport Beach, \$127,500.

"As this study shows, Keating isn't the only businessman in America wielding influence

through political contributions," said center director Ellen Miller. "This study shows scores of other major givers—the Keatings of tomorrow."

According to the study, American Continental contributed \$90,000 in soft money to the state GOP in the 1988 election cycle, all but \$10,000 of it in the final days before the November election.

Lincoln made a separate \$5,000 donation in May, 1987, about the time that federal regulators in San Francisco were recommending that the high-flying thrift be seized by the government.

In fact, the study, which was based on state records, may underestimate the actual amount of soft money that Keating and his affiliated companies contributed to California Republican causes in the 1988 election cycle.

In recent testimony before a California Assembly committee hearing, Karl Samuelian, Gov. George Deukmejian's fund-raiser, testified that Keating gave \$100,000 to the party's Team 100 fund in 1988.

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES

pg 43

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Samuelian said the contributions included \$75,000 by American Continental to the California GOP, \$20,000 to a fund known as the Presidential Trust and \$5,000 made

at a so-called Victory '88 fund-raising event.

State records do not disclose whether these funds came directly from corporate revenues or from individual donations made by employees of Keating's companies. Although federal law prohibits direct corporate contributions to candidates, critics have alleged that Keating paid "bonuses" to his employees from corporate funds with the expectation they would pass the money along to candidates for federal office.

A similar study of 1986 election cycle giving by the center uncovered the \$85,000 contribution that Cranston solicited from Keating for the California Democratic Party. In addition, the senator persuaded Keating to give about \$35,000 to his 1986 reelection campaign and \$850,000 to voter registration groups supported by Cranston.

On Tuesday, it was announced that the Forum Institute, one of the Cranston-supported groups that received hundreds of thousands of dollars from Keating, will suspend operations Jan. 1. Cruz Reynoso, a former California Supreme Court justice and member of the institute's board, said recent publicity had made it difficult for the group to raise money.

Cranston Alters Defense in Lincoln Savings Case

■ **Banking:** After his statements were publicly challenged by a federal official at a House hearing, the senator's recollections changed.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—As the story behind the \$2-billion collapse of Lincoln Savings & Loan has continued to unfold, Sen. Alan Cranston (D-Calif.) has altered a key element of his original defense against charges that he intervened improperly on behalf of the Irvine thrift.

Earlier this year, when Cranston was asked to explain why he intervened with federal regulators in 1987 on behalf of the savings and loan, he said that he had asked the government to take "prompt corrective action" against Lincoln owner Charles H. Keating Jr.

"I said: 'Do something or leave him alone. If there's anything criminal, indict him,'" Cranston declared at a press conference last May.

But Cranston no longer makes that assertion when he speaks in defense of his actions in the Keating affair. Instead, he now contends that he simply asked Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, why the investigation of Lincoln was taking so long.

Cranston's story changed after Gray, in testimony before the the House Banking, Finance and Urban Affairs Committee earlier this month, publicly challenged the senator's original explanation.

It is not the first time that Cranston has waived in his recollection of matters involving Keating. Nor is it the first time that Cranston and Gray have clashed over what happened in April, 1987, when Cranston and four other senators met with the bank board chief to discuss Lincoln.

In fact, Cranston and Gray—former California political adversaries since 1966, when Cranston criticized Gray's boss, then-GOP gubernatorial candidate Ronald

"untruthful," Cranston replied that he never intended for anyone to think that he had advocated Keating's indictment in the April 2 meeting.

"I didn't say I said that in that meeting," the senator said in an interview. "I said it upon other occasions."

But neither Cranston nor his aides could identify exactly when the senator advocated the possible indictment of Keating.

"You are not going to get a very satisfactory answer on that," said Cranston's press secretary, Murray Flander. "He recalls that he said it at some time, but he doesn't remember when."

The involvement of Cranston and the four other senators has been cited as a possible factor in a decision by bank board officials to reject a recommendation to seize Lincoln in 1987. When the government finally assumed control of Lincoln last April, the ultimate cost to taxpayers had grown to an estimated \$2.3 billion.

Gray and other critics contend that the senators' action in the Lincoln case was improper because the five previously had solicited campaign contributions and other donations totaling \$1.3 million from Keating.

Moreover, Gray has said that when he met with the senators on April 2, 1987, they were asking for special treatment for Lincoln, which at the time was under investigation by the bank board.

The other four senators are Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John H. Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.).

In response, Cranston has said that his actions on behalf of Lincoln were no different than the inquiries that he regularly makes at many federal agencies regarding complaints from his constituents. During 20 years in the Senate, Cranston said, he has intervened with the bureaucracy on behalf of thousands of Californians.

Cranston has also insisted that his actions had no impact on the

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Reagan—appear to be engaged in an escalating war of words involving every aspect of the Lincoln scandal.

Asked in an interview about Gray's charge that his original statements were

Please see CRANSTON, A24

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bank board's investigation of Lincoln. He has noted that both Gray and his successor, M. Danny Wall, have testified that they were not swayed by the contacts that they received from the senators.

Gray has been quick to assert that there are discrepancies in Cranston's explanations. After Gray began telling his side of the story last May, according to the former bank board chairman, "the knee-jerk reaction by the senators was simply to deny what I have said."

Cranston is by no means the only senator whose account of his role in the controversial case has changed over time. Riegle, who originally cast himself as a bit player in the drama, since has acknowledged that Gray met with the senators in April, 1987, at his suggestion.

Beginning last May, Cranston frequently said that his primary concern in 1987 was that the bank board investigation of Lincoln was taking too long.

He denied that he had sought special treatment for Keating. He repeatedly emphasized that he had told Gray and other bank board officials that he did not care whether Keating was indicted for criminal activity but only wanted the inquiry to be concluded before it hurt the reputation of the Irvine thrift.

As Cranston put it last August: "There was nothing improper in any of my contacts with Charles Keating, nor was there anything improper in my joining with other senators to ask the FHLBB to take prompt corrective action, including seeking criminal action against Keating, if grounds existed."

But in Gray's testimony before the House committee Nov. 14, the former regulator denounced as "untruthful" that statement and similar ones by the California senator.

"Cranston did not ask that we take 'prompt, corrective action' nor did he ask that we take 'criminal action against Keating' under any circumstances," Gray told the panel.

Gray also said in an interview that Cranston made no such statement during a subsequent meeting on April 9, 1987, between the five senators and top federal regulators from San Francisco, who were responsible for the Lincoln inquiry. A transcript of the second meeting shows that Cranston, who attended the meeting only briefly, said: "I just want to say I share the concerns of the other senators on this subject."

Furthermore, Gray emphasized that these were the only two meetings that Cranston has acknowledged having with federal regulators on the Lincoln matter in 1987.

Ever since Gray disputed Cranston's earlier statement, the senator no longer has stated that he urged the indictment of Keating when he is asked about it in public forums. Instead, he has quoted Gray as saying that he talked very little in the April 2 meeting and "only asked some questions about the duration of the examination."

Originally, Cranston also denied Gray's charge that DeConcini had tried to negotiate with the bank board on Keating's behalf during the first meeting on April 2. Gray has stated that DeConcini pledged Lincoln would make more home mortgage loans if the bank board withdrew a regulation restricting other investments. DeConcini has denied it.

It was not until Cranston recently read the transcript of the April 9 meeting—in which DeConcini raised the same subject—that he began to doubt his original recollection of the first meeting. The California senator said that "there may well have been some discussion of the regulation" by DeConcini on April 2.

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Los Angeles Times

Sen. Alan Cranston

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Cranston calls FBI inquiry a political ploy

By Norma Meyer

COPY NEWS SERVICE

Sen. Alan Cranston, increasingly on the defensive over his entanglement with Charles H. Keating Jr., on Wednesday angrily accused the FBI of harboring political motives for reportedly probing three voter registration groups that were backed by the lawmaker and received funds from the thrift executive.

In a letter sent to FBI Director William Sessions, the Democratic senator demanded an investigation into the source of leaks for a *New York Times* article Wednesday that reported the bureau is scrutinizing the activities of the groups, including one headed by Cranston's son, Kim.

"It makes my blood boil to see attempts to smear my son and drag him into the mud," Cranston told reporters at his campaign headquarters in Brentwood.

Cranston denied assertions attributed to FBI sources that two of the non-partisan groups may have violated their tax-exempt status by deliberately registering more Democrats than Republicans. He also called on the FBI to investigate a host of Republican-financed voter registration groups and other organizations with GOP sympathies, including Moral Majority and American Coalition for Traditional Values.

"If we are going to have even-handed justice, if we are going to have an FBI we can respect, I suggest they look into these activities carried on by Republicans as well as activities carried

on by Democrats," he said.

Discipline sought

In the letter to Sessions, Cranston's lawyer demanded that the bureau discipline the government source of the *Times* report.

"These 'anonymous' federal law enforcement officials are behaving extraordinarily improperly and are motivated, we believe, by political rather than law enforcement objectives," wrote attorney William W. Taylor III.

A spokesman for the FBI, while refusing to comment on the reported probe, denied that any of the agency's investigations are politically motivated.

"The FBI has had a long history of being non-partisan in their investigations and I assure you any investigation undertaken is being done so in a non-partisan manner," said Milton Ahlerich, the bureau's assistant director for public affairs.

Quoting the unnamed federal authorities, the *Times* said the FBI is investigating two of the voter registration organizations — including the Los Angeles-based Center for Participation in Democracy headed by Kim Cranston — to determine if employees were ordered to register more Democrats than Republicans.

Large donations

The FBI is also interested in all three groups because of the large amounts of money they received from corporate donors, including Keating's failed Lincoln Savings & Loan Association, according to *The Times*. The oth-

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A POLITICAL PLOY

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er organizations are the Forum Institute and USA Votes, both based in Washington.

Forum Institute, which plans to cease operations in January, and the Center for Participation in Democracy, no longer active in fund-raising, are tax-exempt.

Cranston acknowledged that he solicited money for the groups from Keating, but denied being asked for or granting any favors in return. Keating is believed to have donated \$850,000 to the organizations' registration drives in late 1987 and early 1988.

"He and others had a capacity to give and had a record of giving to public causes," Cranston said. "Mr. Keating had contributed to Mother Teresa, he had contributed to anti-pornography activities."

(Mount Clipping in Space Below)

Lincoln S&L Reportedly Bankrolled State GOP

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Lincoln Savings & Loan and its parent company contributed \$95,000 in "soft money" to the California Republican Party during the last election, even as the Irvine thrift was piling up \$2 billion in federally insured losses, according to a study released Tuesday.

The contributions constituted an act of political bipartisanship by the parent firm, American Continental Corp., which previously had contributed \$85,000 to the California Democratic Party in 1986 at the request of Sen. Alan Cranston (D-Calif.).

Soft money is a term used to describe contributions to state and local political activities, such as voter registration and get-out-the-vote drives, that are not subject to the contribution limits contained in federal election law.

At the time the money was contributed to the state GOP, American Continental Chairman Charles H. Keating Jr. was battling with state and federal officials for permission to continue the risky investment practices that eventually led to Lincoln's collapse. The Administrations in both Washington and Sacramento are Republican.

An Arizona Republican, Keating has stated that he expected his political contributions to win him influence with government policymakers. At least three members of Congress have returned Keating's donations since Lincoln was seized by the federal government last April.

Keating's contributions to the California GOP were disclosed in a new survey of soft-money donations in nine states by the Center for Responsive Politics.

The Center for Responsive Politics found that the California GOP took in \$5.8 million and the state Democratic Party received \$4.4 million in 1988—making them the two biggest single recipients of soft money in the survey.

Critics contend that soft money contributions have become a back-

door way for corporations and unions to continue giving to federal campaigns after their political action committees have already donated the maximum amounts permitted under federal law.

It is not known precisely how much soft money was raised in 1988. But the national Republican and Democratic parties estimated that they distributed more than \$40 million in soft money and the center found evidence of at least \$28 million spent in nine key states in the presidential contest between George Bush and Michael Dukakis.

While federal election laws prohibit individuals and corporate political action committees from making contributions in excess of \$2,000, the center found that more than 100 corporations and individuals made soft-money donations in nine key states. In California, seven people contributed at least \$100,000 each, and 82 gave \$20,000 or more.

Among the big contributors to the California GOP were Marvin Davis of Los Angeles, head of an oil, communications and investment firm, who gave \$110,000; Atlantic Richfield, \$139,500, and the William Lyon Co., an Orange County builder in Newport Beach, \$127,500.

"As this study shows, Keating isn't the only businessman in America wielding influence through political contributions," said center director Ellen Miller. "This study shows scores of other major givers—the Keatings of tomorrow."

According to the study, American Continental contributed \$90,000 in soft money to the state GOP in the 1988 election cycle, all but \$10,000 of it in the final days before the November election.

Lincoln made a separate \$5,000 donation in May, 1987, about the time that federal regulators in San Francisco were recommending that the high-flying thrift be seized by the government.

In fact, the study, which was based on state records, may underestimate the actual amount of soft money that Keating and his affiliated companies contributed to Cal-

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ifornia Republican causes in the 1988 election cycle.

In recent testimony before a California Assembly committee hearing, Karl Samuelian, Gov. George Deukmejian's fund-raiser, testified that Keating gave \$100,000 to the party's Team 100 fund in 1988.

Samuelian said the contributions included \$75,000 by American Continental to the California GOP, \$20,000 to a fund known as the Presidential Trust and \$5,000 made at a so-called Victory '88 fund-raising event.

State records do not disclose whether these funds came directly from corporate revenues or from individual donations made by employees of Keating's companies. Although federal law prohibits direct corporate contributions to candidates, critics have alleged that Keating paid "bonuses" to his employees from corporate funds with the expectation they would pass the money along to candidates for federal office.

A similar study of 1986 election cycle giving by the center uncovered the \$85,000 contribution that Cranston solicited from Keating for the California Democratic Party. In addition, the senator persuaded Keating to give about \$35,000 to his

1986 reelection campaign and \$850,000 to voter registration groups supported by Cranston.

In a related development, the New York Times reported today that federal law enforcement authorities are investigating the voter registration groups to determine whether employees were instructed to register more Democrats than Republicans. Employees for one of the groups have alleged that such instructions were issued, a charge denied by the organization.

The Times reported that the FBI is interested in the voter registration groups because of the large amounts of money flowing to them from major donors, including Keating and his associates. The newspaper quoted anonymous officials as saying that California banking regulators sent documents to the FBI last July involving the three groups.

On Tuesday, it was announced that the Forum Institute, one of the Cranston-supported groups that received hundreds of thousands of dollars from Keating, will suspend operations Jan. 1. Cruz Reynoso, a former California Supreme Court justice and member of the institute's board, said recent publicity had made it difficult for the group to raise money.

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Wilson received \$16,500 from Lincoln chief in '85

WASHINGTON — US Sen. Pete Wilson received at least \$16,500 in campaign contributions from former Lincoln Savings and Loan executive Charles Keating Jr. and Keating's associates, according to contribution reports.

The press secretary for Wilson, R-Calif., said that one of the senator's aides recalls that Wilson may have met once with Keating. But he said that the senator, who now is campaigning to become California's governor, didn't remember the meeting.

"We know he contacted our office and wanted us to get involved in an issue, but we declined to get involved in that issue," Bill Livingstone said.

He said the call came in 1985, the same year as the campaign contributions.

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The Keating Five

Senators Who Helped Lincoln S&L Now Face Threat to Their Careers

Coming Ethics Panel Probe Holds the Greatest Danger For Cranston, DeConcini

Grist for Comedians' Routines

By JILL ABRAMSON and PAUL DUKE JR.
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—When a frantic Sen. Donald Riegle burst into Sen. John McCain's mailroom one day last month, astonished McCain aides realized just how much the courteous and clubby world of the Senate has been upended by the Charles Keating scandal.

Both senators have been swept into membership in the "Keating Five," the men accused of selling their influence with the Federal Home Loan Bank Board to Mr. Keating, the now-notorious chairman of failed Lincoln Savings & Loan Association. Sen. McCain has accused Sen. Riegle of trying to shift some of the unwelcome attention away from himself and onto Sen. McCain.

With the Ethics Committee set to probe both senators, the last thing Sen. Riegle wanted was to tip his defense strategy. So when he learned that a congressional page had mistakenly delivered his own handwritten draft of a letter for the Ethics Committee to, of all people, Sen. McCain, he raced to the senator's mailroom, demanding that McCain aides help him find the paper. Sen. Riegle "was unbelievably rattled," says one of the aides.

It turned out someone else on Sen. Riegle's staff had already retrieved the notes. But the incident underscores what a toll the Keating affair is exacting.

Threat to Careers

To different degrees, the scandal has threatened the political future of each of the Keating Five senators—Riegle, McCain, Dennis DeConcini, Alan Cranston and John Glenn. Having met with thrift-institution regulators in 1987 on behalf of Mr. Keating's highflying Lincoln Savings, which wanted relief from a restriction on its investments, they face investigations of whether their actions were linked to some \$1.3 million in political contributions he sent their way.

The five have been elevated now to that agonizing level of political notoriety suffered earlier this year by former House Speaker Jim Wright and former Pentagon nominee John Tower. They find themselves denounced in editorials, spoofed in "Saturday Night Live" skits and mocked in Jay Leno monologues (his "scenic" checks from Lincoln Savings, the comedian says, show five senators waving from a yacht off Bimini).

Possible Censure

It is unprecedented for five sitting senators—among them the second-ranking Democrat, two military heroes and the chairman of the influential banking committee—to be under investigation. Next year, the Senate probably will have to pass judgment on them, in a process that may wrench the upper chamber much the way the House was torn by the Wright case. They could be censured by their colleagues and face action by law-enforcement authorities, for what former Home Loan Bank Board Chairman Edwin Gray has called "a clear subversion of the regulatory process."

The senators deny wrongdoing and say their actions on behalf of Mr. Keating were part of normal constituent service. All say they either didn't ask for the investment curb to be dropped or don't recall the matter coming up. But even if they convince investigators, the five still face judgment by the taxpayers who must foot the bill for the Lincoln Savings debacle, a bill estimated at \$2 billion.

There are important distinctions among the Keating Five, in the degrees of their involvement with Mr. Keating, in the actions they took and in the ways they are seeking to limit the damage. These differences ultimately will determine which will survive the Keating mess.

At this point, Sens. Cranston and DeConcini are the most bloodied. They continued to intercede for Mr. Keating and accept his money even after being pointedly warned that regulators were asking for a criminal investigation. Sen. Cranston and his voter-registration organizations got the most money from Mr. Keating, while Mr. Gray suggests that Sen. DeConcini took the lead in trying to influence regulators.

Sen. Riegle has been hit surprisingly hard, as much for his erratic handling of the matter as for what he actually did. One political observer describes his behavior as almost Nixonian.

Sens. Glenn and McCain appear the least at risk. Both say they had reservations about meeting with thrift regulators. But these former military heroes may have suffered the most personally. Sen. McCain ruefully observes that during five years he spent as a prisoner of war in North Vietnam, "even the Vietnamese didn't question my integrity."

Here is a look at the predicaments faced by each of the Keating Five:

McCain/ Glenn: Tarnished Icons

"My reputation hangs on this in the seventh decade of my life," says an emotional Mr. Glenn, pounding the steering wheel of a rented sedan as he drives through the Ohio Appalachian foothills where he spent his boyhood. "From the standpoint of my honor and integrity this is absolutely the worst thing I've ever been through."

His strategy—to defend his honor, say

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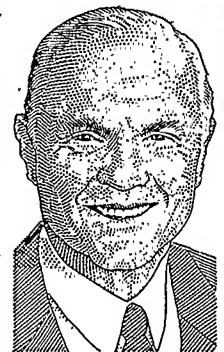
he did nothing wrong and maintain high visibility—appears to be working.

At a speech in Cumberland, Ohio, Mr. Glenn's old Mercury 7 magic still charms them. He is mobbed by children who want to shake the hand of an astronaut. One woman waiting to get his autograph, Annette Hayes of Cleveland, says, "John Glenn can do no wrong in the eyes of a lot of people in Ohio." Still, the Keating affair is an unpleasant undercurrent, mentioned even at this friendly gathering.

Recent polls show Mr. Glenn's favorable ratings holding steady in Ohio. But even in his hometown of New Concord, some worry that their favorite son may have gone a bit astray. "Despite his explanations, I'm disappointed in John Glenn," says Herbert Thomson, an economics professor just retired from Muskingum College, the senator's old school.

The stress shows on Annie Glenn's face as she is asked to compare the ordeal with waiting for her husband to come home from his space voyage. "One was his life at risk. In this you're talking about a fine reputation at risk," says Mrs. Glenn, who frequently acts as her husband's co-pilot in their twin-engine plane. "They're different, but this is horrible."

Sen. Glenn received \$234,000 in Keating-related contributions during the 1980s, including \$200,000 to a political-action committee he controlled. But Mr. Glenn says that he met with regulators only after Mr. Keating provided documentation for his case from financial experts, and that he had nothing further to do with him after being told regulators were making a criminal referral. "What is so aggravating is I go to one meeting to ask about an audit and the public perception is I was responsible in some way for the whole S&L crisis," Mr. Glenn exclaims.



John Glenn

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Also potentially damaging is the involvement of some former aides. Three onetime Glenn associates, including the manager of his 1984 presidential campaign, became lobbyists on the Keating payroll. Two helped arrange the PAC donation.

War Stories

Senator McCain, like Messrs. Glenn and Keating, is a former fighter-plane pilot. He was intrigued by Mr. Keating's war stories when they met at a Navy League dinner in Phoenix in 1981. They became friends.

For three years, the McCains vacationed at the Keatings' resort home on Cat Cay in the Bahamas. The senator only belatedly reimbursed Mr. Keating \$13,000 for most of the nine trips he or his family took on the Keating corporate jet.

Sen. McCain received \$112,000 in Keating contributions for the 1986 campaign. He also has been criticized for a \$359,000 investment his wife and his father-and-law made in a Keating shopping mall in Arizona.

The media-savvy Arizona Republican has taken the most aggressive posture from the start of the scandal, accepting virtually all interview requests and even releasing details from his 1981 prenuptial agreement with his second wife. Trying to capitalize on his candor, his office gives journalists videotapes of his appearances and lists of interviews he's done on the Keating matter. "I couldn't live unless I did everything I could to clear my name," Mr. McCain says.

Mr. McCain is also hitching himself to Mr. Glenn, who has both a hero image and a lesser involvement with Mr. Keating. When the producers of "This Week With David Brinkley" wanted to interview all five senators two weeks ago, Mr. McCain's staff made it known he preferred to appear alone or with just Mr. Glenn. He says colleagues have told him that in the Keating affair, "the two pieces that don't fit are me and Glenn."

There is bad blood between him and Sen. Riegle, going back to before the mailroom incident. Mr. Riegle, trying to minimize his own role, once said Sen. McCain had invited him to the meeting with thrift regulators; Sen. McCain hotly denied it and suggested to reporters that the Michigan Democrat might be "trying to throw you off his scent."

Meanwhile, Sen. McCain has pointed the finger at others. Sen. DeConcini was furious when Mr. McCain last May solicited former Bank Board Chairman Gray's recollections of the meetings with the senators. Mr. Gray exonerated Mr. McCain but excoriated Mr. DeConcini. Mr. McCain later apologized to his Arizona colleague. He denies trying to shift the blame. "I've been careful not to speak about his involvement," he says.



John McCain

Regardless, "Dennis thinks McCain is trying to take himself off the hook while indicating that DeConcini deserves the blame," says Charles Pine, a former Arizona Democratic boss, who has discussed the incident with the senior senator. In addition, DeConcini staffers believe a memo damaging to their boss was leaked to the press by a McCain aide, who denies it.

Despite Sen. McCain's efforts, the percentage of Arizonans who hold a negative view of him has grown by 10 points since the story broke. In bedrock Republican country, at a meeting of the Mesa Rotary Club, Mr. McCain visibly winces as an octogenarian member tells the senator he still believes in him. "The fact that my supporters even feel they need to say these things is evidence of how serious the situation is," he observes.

Mr. McCain is generally expected to survive and win re-election in 1992. But the senator, who was seriously considered as a running mate for George Bush in 1988, is no longer regarded as a rising national

star in the GOP. "He can forget Iowa," snaps one Republican consultant.

DeConcini: The Ringleader?

The Keating scandal caught Sen. DeConcini flat-footed. Instead of heading home to assess the damage, as his junior colleague did as soon as Congress recessed in November, he entertained a delegation of Soviet legislators. While he tended to Washington chores, his wife stood in for him at some events in Arizona. At a Phoenix soiree a month ago honoring a Democratic official, Susan DeConcini lambasted the press for its coverage of her husband. "There was an embarrassed silence in the room," one Democrat says.

The senator has taken a terrible pounding in the Arizona Republic, which has run political commentary with headlines such as "Stifle it, Dennis, nobody's listening to your whining." It's perhaps no wonder the newspaper's poll shows his approval rating falling below 40%, less than a year after he was re-elected with 57% of the vote.

Mr. DeConcini's biggest problem is that he has been fingered by former Bank Board chief Gray as the ringleader of the Keating Five. Mr. Gray says the Arizona Democrat actually negotiated on behalf of Mr. Keating, offering an improper quid pro quo under which Lincoln Savings would make more conventional home loans if regulators would drop an investment restriction that bothered Mr. Keating.

Earlier this year, Mr. DeConcini was still calling federal and California thrift regulators on behalf of Mr. Keating, who hoped to sell Lincoln. And Mr. Keating was toastmaster at the grand finale of the Arizona Democrat's 1988 campaign—a rally at a \$300 million luxury resort, the Phoenixian, that Mr. Keating built as a monument to himself.



Dennis DeConcini

Mr. DeConcini denies taking the lead in trying to help Mr. Keating, and he and the other senators dispute Mr. Gray's account of the meeting, saying they don't remember any deal being proffered. "I didn't put the meetings together," Sen. DeConcini says. "I told Keating, 'I'm not your guy.'"

Yet it was only recently, as the scandal deepened, that Mr. DeConcini distanced himself from Mr. Keating. In September, he returned the \$48,000 Mr. Keating had raised for his 1988 campaign.

Some of the senator's supporters attribute his bumbling in part to the absence of his closest political adviser, Ron Ober, who has been sidelined by stories about big loans his company received from Lincoln. Some \$30 million of these loans was unsecured, even though Mr. Ober's company had huge liabilities. Mr. Ober didn't return calls seeking comment. Mr. DeConcini says he wasn't aware of Mr. Ober's dealings with Mr. Keating.

The scandal has clearly taken a toll on Mr. DeConcini, say supporters who met with him at state Democratic headquarters a month ago. "Dennis is hurt. He feels he's been unduly persecuted," says Mr. Pine, the former state party leader. Mr. DeConcini, a wealthy former prosecutor, seems weary and defensive. "I find myself under a cloud, under suspicion," he complains. "That smacks at my integrity."

The one glimmer of hope for Mr. DeConcini is that he doesn't have to run again until 1994. Despite his recent fence-mending at home, "the consensus is that if he were up for re-election in 1990, he'd be in desperate trouble," says Robert Neuman, an Arizona Democrat and public-relations executive.

Cranston: Badly Wounded

Alan Cranston evidently didn't grasp the magnitude of his troubles until last month, when three elderly California women who said they had lost their life savings by investing in uninsured bonds sold at Lincoln came to Washington to testify. Connie Wicksman of West Hills, a 78-year-old immigrant, said she was "ashamed to say I had faith in" the California senator. As she uttered those words, Mr. Cranston's chances for re-election in 1992 all but disappeared.

"You can just see the Republican ads they are going to make out of this," says a former state Democratic official.

Of the Keating Five, Mr. Cranston has the most serious liabilities. He took the most money from Mr. Keating: \$850,000 for his voter-registration operations and \$35,000 in direct campaign contributions. Like Mr. DeConcini, he continued to work on behalf of Mr.



Alan Cranston

Keating, and take money from him, for some time after the 1987 meetings with federal thrift regulators.

The Federal Bureau of Investigation is reported to have widened its inquiry to examine whether employees of the voter groups violated their tax-exempt status by trying to enroll more Democrats than Republicans. A Cranston spokesman denied this suggestion and says the senator hasn't been contacted by the FBI. The broader investigation suggests that Mr. Cranston is in potentially deeper trouble than the rest of the five.

His biggest political problem is that about 130,000 Lincoln depositors live in California. And, in what most political observers view as a fatal mistake, Mr. Cranston avoided talking to the news media during the firestorm of publicity following the depositors' testimony. "His initial reaction was it would all blow over," says Anthony Podesta, a Democratic consultant and one of several party insiders who have urged Sen. Cranston to tackle the problem head-on.

Now Mr. Cranston is back in California trying to launch a counteroffensive. But

the Keating case dogs him everywhere. "They will destroy Keating," he fumed to tablemates at a recent luncheon at the San Diego City Club, apparently referring both to the media and to various investigations.

Mr. Cranston insists he will seek re-election in 1992 at age 78. But leading Democrats, including California Rep. Nancy Pelosi, are pressing him to reconsider. Some predict he will be forced to step down before then. The Los Angeles Times said last Friday that 41% of California Democrats polled think Mr. Cranston should resign now.

Even if he stays, he may be hobbled in his post as majority whip, the second-highest Democratic post in the Senate. "It's like the cowboy who falls off the runaway horse, but his foot gets caught in the stirrup," says one senator who worries about Mr. Cranston's effectiveness. "You can't stop the horse; you can only hope it will slow down by itself."

Riegle: 'Eau de Cover-Up'

Donald Riegle's actions and statements in the past month have made his own candor—or lack of it—almost as much of an issue for him as the Lincoln affair itself. "It's been an almost Nixonian performance," marvels William Ballenger, who

publishes a newsletter, Inside Michigan Politics.

Sen. Riegle received \$76,100 in Keating contributions to his 1988 campaign, which he returned in March 1988. When Common Cause called for an Ethics Committee investigation on Oct. 13, Mr. Riegle said all relevant facts about his involvement with Mr. Keating already had been disclosed. Five days later, he told the committee that "at no time did I initiate any contact with the regulators concerning Lincoln."



Donald Riegle Jr.

But soon after that, it came out that Mr. Riegle had met with a Lincoln auditor and Lincoln's general counsel in late February 1987—and that a week later he had suggested a senatorial meeting about Lincoln with the nation's top thrift regulator.

Sen. Riegle says those revelations weren't relevant to the ethics panel's narrow request. He emphasizes that he attended only one of the two meetings with regulators, and, like the other senators, says he did so because Arthur Young, Lincoln's auditor, had said the thrift was being harassed. Like Messrs. Glenn and McCain, Mr. Riegle ceased contact with regulators about Lincoln after hearing about the criminal referral.

The Grand Rapids Press, which en-

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dorsed Mr. Riegle for re-election last year, has blasted him. "Eau de Cover-Up is starting to drift home to Michigan in the wake of the latest revelations," it said. In response to such criticism, Mr. Riegle embarked on damage-control operation in Michigan last week, breaking his earlier silence to give interviews across the state.

While the Keating Five sweat out the ethics and Justice Department investigations, present and former colleagues are wondering what good can come out of the Keating affair. "When something like this hits, it leaves everyone shaken," says former Sen. William Proxmire of Wisconsin, a longtime advocate of reform in campaign finance and Mr. Riegle's predecessor as Banking Committee chairman. "Maybe they'll get serious about doing something."

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Cranston dogged by Lincoln

Senator defends self while traveling state

By Chris Knap
The Register

For Sen. Alan Cranston, Lincoln Savings & Loan is the problem that will not go away.

As he crisscrosses the state this month, seeking to re-establish his credentials as a leader on national issues, his involvement in the collapse of the Irvine-based thrift continues to bedevil him.

Monday, in Marin County, schoolchildren at Davidson Middle School asked him to explain. Later that day in a forum on women's issues at San Rafael City Hall, a man who would identify himself only as "not in politics" also demanded an explanation.

"I think that somewhere down the line, you're going to have to respond to the American public as

The bond holders and many long-time Cranston supporters are angry at the senior senator for his involvement in the case. Even those who believe he has done no wrong say his career has been badly damaged.

Now Cranston, 75, a champion of liberal causes through four US Senate terms, is having to answer the questions he had hoped would go away. He schedules community forums on toxic pollution, offshore oil drilling and abortion rights. But the reporters — and invariably, someone in the audience — wants to know about Lincoln.

Today, Cranston visits Orange County to discuss open space, the homeless and women's issues. One woman who has become an unofficial leader among those who lost money at Lincoln has promised to picket.

Earlier this week, in a Volkswagen van bobbing over Highway 101 between Sausalito and San Rafael, Cranston talked with a Register reporter.

Interventions by him and four other senators on behalf of Keating had no effect on the decisions of regulators, he said. He violated no ethical rules of conduct. In short, he may have made a political mistake, but he did nothing wrong.

"When I get the facts through the press to the public I think the people of California are very fair and will decide I did not commit any



Sen. Alan Cranston
Coming to OC today

■ **PICTURE:** How the Cranston-Keating relationship unfolded/4

to why you continued to stay involved with (Lincoln owner) Charles Keating," the man said.

Alan Cranston accepted nearly \$1 million from Keating for his re-election campaign and other political causes. Eight times, he called or met with federal regulators to discuss Lincoln Savings & Loan.

Please see **SCRUTINY/6**

impropriety," he said.

That is a view that some Cranston supporters don't share.

"Alan's been terribly hurt by even appearing with the other senators," said former California Gov. Edmund G. "Pat" Brown Sr., a longtime Cranston ally.

"(Cranston should) weigh very carefully whether to run again," said Rep. Nancy Pelosi, D-San Francisco, a former director of Cranston's voter-registration drive.

Lu Haas, a long-time Cranston strategist who served as the senator's press secretary from 1969 to 1981, is convinced Cranston did no wrong. But he reports, sadly, "Some of his old friends are absolutely disturbed by this."

As a former political insider, Haas believes he sees the situation clearly.

"If there's a right or wrong in this situation, I think it's in the system. It's not in what Alan actually did. Money is corrupting the system, not in the sense of bribes, but that to become an elected official, you have to become part of the big money machine. That, per se, is a corruption."

Cranston has always courted wealthy donors — virtually every federal politician does.

Haas even chuckled at the practice, describing "a sort of Robin Hood effect" from Cranston taking huge sums from wealthy conservatives and then using the money to

advance liberal causes: abortion rights, nuclear disarmament, a ban on offshore oil drilling, dedications of huge sections of desert to the national park system.

But to liberals who prefer not to think about the role of money in the political system, the Lincoln case came as a shock.

"Voters avert their eyes from the blunt truth," Haas said. "Then they are disappointed when someone is exposed as having done this in the grand style."

Between 1985 and 1988, Cranston collected from Keating and his associates at least \$35,000 in campaign contributions, \$850,000 for his voter-registration efforts and \$85,000 for the California Democratic party's statewide efforts.

"I don't think any politician can take \$850,000 from a developer and then do favors for him and not expect eyebrows to be raised," Haas said. "It's an enormous amount of money."

And there are other, similar cases in Cranston's record, although not on such a scale.

Between 1986 and 1988, for instance, Cranston collected more than \$50,000 from Drexel Burnham Lambert and its junk-bond chief, Michael Milken. Much of the money went into the voter projects, but Cranston collected \$4,000 in honorariums in 1986 and 1987, according to public-disclosure forms.

In January, Cranston wrote the Securities and Exchange Commis-

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sion, asking the agency to drop its demand that Drexel move its junk-bond department from Beverly Hills to New York. After the lobbying by Cranston and other congressmen, the SEC did so.

The senator's Washington spokesman Murray Flander described the letter as "an effort to keep a local business here in California."

"Alan Cranston has finally been exposed for something he has been doing all along," Orange County Republican Party Chairman Thomas Fuentes said. "For years he has maintained a liaison with special interests on particular issues whereas overall his votes have been anti-business and pro-liberal."

Cranston does not deny that he solicited money from people with different political agendas.

"I live in a state where it costs more to run than anywhere else in the country," he said. "In the last race I had I set a record for what a Democratic candidate has raised, over \$13 million, and I still got outspent by my opponent (Ed Zschau), who raised \$15 million plus.

"It's a very unpleasant situation, and it leads to suggestions of impropriety, even if there are no improprieties committed. I worked to change this system long before this incident arose."

Cranston calls intervention with federal officials "constituent ser-

vices," and says he has helped thousands of people — contributors and non-contributors — in similar ways.

"I help anybody that seems to have a legitimate problem with the government," he said.

Cranston said Lincoln had more than 700 employees and 140,000 depositors.

"You can't ignore it when somebody with that big an operation says he's got an unfair problem," he said. "If I took the position that because somebody has contributed to me I can't lift a finger for them, even if they seem to have or may have a just case, I would not be a very worthy senator. Out of political cowardice, I would avoid taking a look at the (complaints) of a constituent that seemed to have some difficulties — I'm not going to ever take that wimpishlike position."

But Sherry Bebitch Jeffe, senior political scientist at Claremont Graduate School's Center for Politics and Policy, said Cranston's actions cannot be excused as part of the system.

"It has always been the case that some constituents, mostly large contributors, are more equal than others. But ... what Cranston did for Keating is not the same as helping an old lady cut through red tape," Jeffe said.

Shirley Lampel, of Tustin, a widow who is losing her sight to diabetes, agreed.

Lampel, 58, took \$30,000 from her husband's life insurance settlement out of a savings account and purchased junk bonds at Lincoln, chiefly for the monthly income they promised. She thought it was guaranteed.

"I trusted the FSLIC (federal deposit insurance sticker) on the door of Lincoln Savings," Lampel said. "I was cheated. This Keating took my \$30,000 and he was off. But Charles Keating could have never done what he did without Cranston and the help of the four other senators.

"They opened the hen-house door to this fox."

As Cranston has traveled the state this month, he repeatedly has said he will run for re-election in 1992.

"I believe that the people who have been with me will be with me when the election comes. And it's a long way off, fortunately," he said.

Lampel is doing everything she can to ensure that does not happen.

"I have been Paul Reveré-ing this story. Whoever I can tell, I do. As long as I have someone who will drive me, I will be there with my picket sign wherever Alan Cranston appears.

"He can run for president or for dogcatcher — but he'll never be elected."

Cranston's involvement with Keating began at 1985 fund-raiser in Phoenix

By Chris Knap
The Register

Sen. Alan Cranston and Charles H. Keating Jr. met at a 1985 Phoenix fund-raiser set up by one of Keating's attorneys.

The two men had little in common politically. Cranston, a liberal Democrat, campaigned for a nuclear freeze and abortion rights. Keating, an archconservative Republican, launched into politics with a stern anti-pornography crusade that alarmed defenders of the First Amendment.

Keating and his associates subsequently gave \$970,000 to Cranston's re-election campaign, to his voter-registration causes and to the California Democratic Party.

Cranston phoned or met with federal thrift regulators eight times to discuss Lincoln Savings & Loan, a troubled, Irvine-based thrift owned by Keating.

In April, Keating's American Continental Corporation went bankrupt; Lincoln was seized the next day.

The bailout is expected to cost taxpayers more than \$2 billion.

Intervention by a senator on behalf of a supporter is not unusual in Washington. If Lincoln had not gone under in such spectacular fashion, Cranston's actions might never have drawn such attention.

Through Federal Home Loan Bank Board documents, transcripts of testimony before the House Banking Committee, interviews with regulators and with Cranston, the Register was able to put together a picture of Cranston's involvement in the case.

It begins with the 1985 Phoenix fund-raiser and other efforts by Keating that netted at least \$35,000 for Cranston's 1986 re-election campaign.

Afterward, Keating remained in touch. A favorite topic of conversation was the thrift regulators who were criticizing Lincoln's investment and lending practices.

"(Keating) would call me to complain about how he was being abused by the regulators, and go into tirades on the subject," Cranston said.

Cranston said Lincoln had more than 700 employees in California and 140,000 depositors.

"I was concerned about it," he said. "You can't ignore it when somebody with that big an operation says he's got an unfair problem."

On April 2, 1987, Cranston and Sens. Dennis DeConcini and John McCain of Arizona and John Glenn of Ohio met with Federal Home Loan Bank Board Chairman Edwin Gray in DeConcini's office.

Cranston said his only involvement in the meeting was to call for a quick decision on the Lincoln audit.

"I was doing my best to get a decision — if it was made like the other decisions — that would have kept Lincoln out of business," he said.

In a telephone interview from Miami, where Gray now runs Chase Federal Savings, the former thrift regulator disputed Cranston's account.

"I was told to come to a meeting and bring no staff. The senators had no staff present. Things like this just don't happen in Washington. Here we had a situation where a show of force was the intent. Built into that meeting was the kind of deniability that people seek in case these things get out."

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Gray said DeConcini opened the meeting by saying, "We're here on behalf of our friend at Lincoln." Gray said DeConcini then proposed a deal: Lincoln would make more home loans if Gray would back off on a new rule that restricted other, more risky investments.

If Cranston wanted a decision that would have closed Lincoln, "Why did he not object to the DeConcini proposal?" Gray asked.

"My feeling was that the meeting was called to bring pressure on me to exclude Lincoln from the rules. My feeling was that Cranston was every bit as much a part of that meeting as the other three."

The four senators, as well as Donald Riegle, D-Mich., later met with top regulators from the San Francisco office of the bank board. The regulators said they believed that Lincoln and its parent had committed fraudulent acts. They said they were sending a criminal referral to the FBI.

Those comments prompted Riegle, Glenn and McCain to cease intervening on Keating's behalf.

Cranston said the withdrawal of the other senators only "made it more urgent" for him to continue helping Keating. He noted that Keating had complained that regulators were harassing him and leaking inside information.

"I know that people in the executive branch sometimes make criminal referrals that are groundless and lead to nothing; so, given the adversarial relationship and the harassment and the leaking of damaging information, I was not totally convinced that it meant much," Cranston said.

According to Federal Home

Loan Bank Board memos and testimony to the House Banking Committee, Cranston called or met with regulators at least six more times to discuss the Lincoln case.

In July 1987, he urged the new bank board chairman, M. Danny Wall, to act quickly on the Lincoln case. Wall and the bank board did so, removing the San Francisco office from the case and opening a new investigation in Washington. Lincoln used that time until it was seized to sell more uninsured notes.

In the ensuing year, Cranston solicited \$850,000 from Keating for three voter-registration projects he sponsored; \$725,000 of it ended up with institutions run by Cranston's son, Kim.

Cranston repeatedly has insisted that he got no financial benefit from those contributions.

But financial-disclosure forms filed by Cranston show that two of the voter projects reimbursed him for 43 airplane flights, 25 nights of lodging and an unspecified number of meals in 1987 and 1988.

By early 1989, federal regulators from other branches had begun another examination of Lincoln. Keating was trying to get federal approval for a sale that would keep regulators from seizing Lincoln.

Cranston called or met with Wall four times in 1989 to promote the sale, and made one call to Roger Martin, another bank board member, for the same purpose.

"I suggested that if they could approve the sale, get (Keating) out of the business and end this adversarial relationship, that would be good for all concerned," Cranston said.

But the proposals were rejected, the regulators terming them "sham sales" to business associates that would result in Keating retaining control of Lincoln.

American Continental filed for bankruptcy April 13. Federal regulators seized Lincoln the next day. Wall called Cranston to tell him of the seizure.

"I recall him saying something to (the) effect — he hoped that it was not a mistake," Wall told the

House Banking Committee.

In September, thrift regulators filed a civil-racketeering suit against Keating. The suit alleges that he stripped Lincoln of its assets, engaged in fraudulent transactions to inflate profits, and paid himself and his family members huge salaries and bonuses.

"If (Keating) was doing all those things, he was obviously engaged in a great deal of wrongdoing and it's outrageous," Cranston said.

"But I didn't know about it at the time — if he was a crook. I had the statements by Alan Greenspan (an economist hired by Keating) and Arthur Young (an accounting firm hired by Keating) indicating that he was a solvent, steady entity.

"I still feel that, given what I knew at the time — and that's all I could go on — I behaved in an appropriate way."

Register staff writer Jonathan Lansner contributed to this report.

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More evidence of Lincoln-Silverado links reported

San Francisco Chronicle

WASHINGTON — Executives and associates of Colorado's collapsed Silverado Savings and Loan and its controversial major investor contributed \$10,000 to Michigan Sen. Don Riegle — a key figure in the Lincoln Savings and Loan scandal — one day before Lincoln directed a huge cash infusion to the Silverado investor, The Chronicle has learned.

Campaign finance reports show that 16 Colorado residents with financial ties to Silverado or MDC Holdings, its major backer, all contributed to Riegle on Sept. 29, 1987, the day before MDC received a \$75 million line of credit as part of a land-swap deal with Lincoln. That deal has been labeled a "sham" in a racketeering lawsuit filed by federal regulators.

The documents are the latest evidence of links between Lincoln and Silverado.

President Bush's son Neil was at the time a director of the Colorado firm, which is expected to be the next focus of congressional hearings in the S&L scandal. Bush resigned from the board four months before the government closed Silverado in December 1988, at a cost to taxpayers of as high as \$1 billion.

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Cranston's explanations

seem more and more bankrupt

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By Chris Matthews

WASHINGTON — As democracy is launched in Eastern Europe, it is being sabotaged here at home by the most brazen case of corruption ever documented.

Measured in damage to the public, the Lincoln Savings and Loan scandal makes the Brink's robbery look like a five-and-dime shoplifting case. When the California S&L chain went under this April, 22,000 depositors were left holding \$200 million in worthless bonds. The taxpayer was stuck with a \$2.5 billion bill for Lincoln's insured accounts. It was as if every man, woman and child in the United States had been mugged for \$10.

The decay which led to this multibillion dollar catastrophe was as much political as financial. Five US senators who should have been protecting the interests of average citizens, depositors, and taxpayers were seen using their offices instead to protect the interests of the owner of Lincoln Savings and Loan, Charles Keating.

One of the senators, Democrat Alan Cranston of California, has spent the past week defending his actions on TV talk shows. He's made three arguments: that his intervention on behalf of Lincoln

was the standard service he would give any "constituent"; that it's not his responsibility to know someone's motives in giving him money; and lastly, that the whole episode is simply a case study in how the "system" works in this country.

Cranston's first two arguments are easily dismissed.

Standard "constituent" service?

On April 2, 1987, Cranston and three other senators — Dennis DeConcini, D-Ariz., John McCain, R-Ariz., John Glenn, D-Ohio — called Federal Home Loan Bank Board chairman Edwin Gray to a private, after-hours meeting on Capitol Hill.

Gray has testified under oath he was told to come to the meeting alone; he was not to bring his staff. The senators also came without staff.

A week later, the same four senators met with the board's San Francisco-based examiners. This time they were joined by a fifth senator, Don Riegle, D-Mich., chairman of the Senate Banking Committee. Again the senators attended without their staffs.

To call this show of senatorial force standard "constituent" service, as Cranston did this past week on "CBS This Morning" and "Good Morning America," is laughable. This was made clear by the senator hosting the meeting, Dennis DeConcini. "We're here on behalf of our friend at Lincoln Savings," he began the first meeting.

Having broken the ice, DeConcini brazenly asked Gray to change a Federal Home Loan Bank Board regulation that his unnamed "friend" Keating found restrictive.

Understandably, the five senators wanted to keep meetings with the bank regulators a private affair. Normally, constituent services are dispatched to the attention of the senator's casework staff. In the case of twin Keating meetings, it was the staff itself that was dispatched.

Sen. Cranston's second argument defending his

ties to Keating is weak. "It's not my responsibility," he says, "to figure out what's in somebody else's head when they're making contributions." This is an odd point to make given that he solicited and received more than \$800,000 from Keating, for groups that Cranston controlled, after attending the two meetings with federal banking regulators.

He's latched onto a thin reed of truth as to his third point. There's an expression on the Hill for senators or congressmen who have taken so much money from a special interest that they cease judging an issue on its merits. One lawmaker described to me the heart-stopping experience of sitting at a meeting and suddenly realizing that a colleague is "tanked," that he's no longer doing his congressional job but merely running an errand for one of the Charles Keatings of this world.

In the parlance of Capitol Hill, all five senators who attended those twin after-hours meetings with the banking regulators were "tanked."

If this is the system of democracy we are hoping to export to East Europe, maybe we should keep it to ourselves.

Mr. Matthews, a former aide to onetime House Speaker Tip O'Neill, is Washington bureau chief for the San Francisco Examiner.

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'Keating 5' Senators Activate Damage Control

■ **Thriffs:** Riegle and DeConcini pay for ads in home states while Cranston, McCain and Glenn respond to scandal over Irvine-based Lincoln S&L.

By JOHN FLESHER
ASSOCIATED PRESS

WASHINGTON—Senate Banking Committee Chairman Donald W. Riegle Jr., one of five lawmakers facing ethics investigations in the scandal involving Irvine-based Lincoln Savings & Loan, is starting a TV campaign aimed at limiting political damage back home in Michigan.

Sen. Dennis DeConcini, D-Ariz., is shelling out \$190,000 for newspaper and TV ads in his state.

The other three senators, including California's Sen. Alan Cranston, are defending themselves in varied forums but have yet to pay for newspaper or broadcast access to voters, according to staff members.

Riegle aide David Krawitz said Monday, "There have been inaccurate and sensational news stories about this matter, and in order to get the full and accurate story out, we're showing this program on cable."

Krawitz said the Michigan Democrat would use campaign money to rebroadcast a 30-minute TV

interview in which he responded to questions about his involvement with Charles H. Keating Jr., head of the failed thrift. The program will air on cable stations throughout Michigan, possibly this week. Aides said they do not know how much the broadcast will cost.

DeConcini announced his ad blitz Friday at a press conference in Phoenix, saying he would run newspaper ads and commercials of two to five minutes on TV to tell his side.

"I have decided to take my case directly to the people of Arizona," DeConcini said. "I do this not as a criticism of the press, but because I do not believe that the facts have been adequately heard and understood."

At the center of the controversy are two meetings senators had on Keating's behalf with federal regulators. The first, on April 2, 1987, involved Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, and all the senators except Riegle. The second, seven days later, involved the five senators and bank board examiners from San Francisco. The

regulatory examination of Lincoln was discussed at the latter meeting.

The government seized control of Lincoln on April 14, 1989. The eventual cost to taxpayers is expected to reach a record \$2 billion.

Riegle, DeConcini and Cranston—as well as Sens. John McCain, R-Ariz., and John Glenn, D-Ohio—are subjects of a Senate Ethics Committee inquiry.

The five received a total of more than \$1.3 million in campaign contributions from Keating, who headed the Irvine thrift, and his family and business associates.

Riegle, who later returned the money he received from the Keating group, avoided public comment on the controversy for much of last year. He began granting interviews on the subject in November to home-state reporters, saying he wanted to set the record straight.

He discussed the Lincoln affair in many interviews while traveling across Michigan during the holiday recess, Krawitz said. One of those was a Dec. 10 appearance on a half-hour program on Detroit station WXYZ, during which he was questioned by two reporters and a moderator.

Riegle is paying to rebroadcast that interview, which aide Carolyn

Wallace described as "a fair presentation . . . a tough and frank discussion, and because it's a half-hour and provides a more complete picture" than the typical news story.

Money for the broadcast will come from Riegle's campaign treasury, Wallace said.

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"The goal is to start this week, but it's not certain," she said.

Glenn has held lengthy press conferences and interviews, including meetings with newspaper editorial boards in Ohio, but has no plans to advertise, spokeswoman Rebecca Bell said.

Cranston has attended public meetings at which questions were raised about his involvement in the Lincoln case. "He took them as they came," said Victoria Lion, a spokeswoman for the California Democrat. "He has been very accessible to the press."

Last month, an angry bondholder in Lincoln's parent firm, American Continental Corp., interrupted a panel discussion on women's rights in Santa Ana to criticize Cranston for soliciting money from Keating and for being insensitive to the plight of victims. A staff aide said that throughout his tour of California last month, reporters and others quizzed him repeatedly about his role in the scandal.

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Former Regulator of S&L Industry Assails Cranston

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Edwin J. Gray, former chief regulator of the savings and loan industry, said Tuesday that recent attacks on him by Sen. Alan Cranston (D-Calif.) in connection with the Lincoln Savings & Loan failure are the acts of "a desperate, panic-stricken officeholder."

Gray, who headed the Federal Home Loan Bank Board from May, 1983, to June, 1987, released a letter he sent to Cranston, rejecting the senator's efforts to blame him for the \$2-billion collapse of the Irvine thrift.

"I am sorry, frankly, for my fellow Californians, your constituents, because of your intemperate and abusive outbursts," Gray wrote in an eight-page, single-spaced letter to Cranston. "Your shrill statements strike me as those of a desperate, panic-stricken officeholder. . . . The truth is, I am not your problem, Sen. Cranston. You are."

Gray, who has been Cranston's chief accuser in the Lincoln affair, was responding to a series of California press conferences held by Cranston over the past week in which the senator characterized the former bank board chairman as "a publicity-hungry political hack" who is trying to mask his own culpability by pointing a finger at members of Congress.

Cranston is one of five senators under investigation by the Justice Department and the Senate Ethics Committee for intervening with federal regulators on

behalf of Lincoln chief Charles J. Keating Jr. Voter-registration drives supported by Cranston received \$850,000 in contributions from Keating, and the financier also contributed \$47,000 to the senator's campaign coffers.

Adverse publicity from the Lincoln scandal has caused Cranston's popularity in California to plummet, putting his 1992 reelection bid in jeopardy.

In response to Cranston's charge that Gray should have closed Lincoln in 1987, the former regulator noted that he had no statutory power to do so because Congress at that point had allowed a law governing thrift regulation to lapse.

Gray, who left the bank board one month after regional thrift regulators in San Francisco recommended federal seizure of Lincoln in May, 1987, also suggested that Cranston was being "disingenuous" in criticizing Gray for failing to act on the recommendation.

If he had acted, Gray said, Cranston and other Keating supporters "would have personally run me out of town."

After the government finally stepped in and seized Lincoln in April, 1989, Gray noted, Cranston was quoted by the San Francisco Chronicle as saying: "I think they made a very unwise decision in shutting them down when they did."

Gray said Cranston opposed his regulatory efforts to clamp down on high-flying thrifts such as Lincoln. "The fact that it happened partially on my watch is as much a reflection on your failure, yes, on your

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unwillingness to help me obtain the reforms I went up to the Hill and asked to be passed," he said.

In the Senate, meanwhile, Cranston introduced a bill that would allow bondholders hurt by Lincoln's collapse to sue the federal government for negligence in approving the sale of high-risk bonds

to Lincoln customers.

The legislation seeks to help 22,000 small investors, most of them elderly Southern Californians, who purchased \$200 million in now-worthless junk bonds at Lincoln branches. Many investors mistakenly believed the bonds, issued by Lincoln's parent firm, American Continental Corp., were insured by the government.

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Former S&L regulator denounces Cranston

Man senator blames for Lincoln debacle calls charge outrageous

By Chris Knap
The Register

In an eight-page letter to US Sen. Alan Cranston, former federal thrift supervisor Edwin Gray called it "disingenuous and outrageous" for California's senior senator to blame him for the collapse of Lincoln Savings and Loan.

Cranston met at least eight times with federal regulators to discuss the government's attempts to control the Irvine-based savings and loan. The Democratic senator also solicited \$970,000 for political causes from Lincoln owner Charles H. Keating Jr. and his associates.

"You and Charlie Keating and (Arizona Democrat Sen.) Dennis DeConcini — arm in arm — would have personally run me out of town ... if I had (closed Lincoln)", Gray wrote Cranston.

In Washington, Cranston spokesman Murray Flander said a response was being prepared to Gray's "rambling, repetitious" letter, which Flander dismissed as "more lies."

Gray, the nation's top thrift regulator from 1983 to 1987, was in Spain last week when Cranston conducted a series of California news conferences proclaiming his

innocence in the Lincoln debacle and placing the blame on Gray.

Gray, now president of the Chase Federal Bank in Miami, responded with a letter faxed to Cranston's Washington office late Monday.

Gray told Cranston that his "shrill statements" of last week "strike me as those of a desperate, panic-stricken officeholder."

Specifically, Gray said, Cranston:

■ Never called for action on the stalled audit of Lincoln, as Cranston now says that he did.

■ Did not object when DeConcini asked Gray, in an April 2, 1987, meeting, to revoke a rule limiting risky investments by savings and loans.

■ Did not "lift a finger to help" with the statutory reforms Gray sought in the US Senate, including extension of federal authority over state thrifts and savings and loans and stricter regulation of brokered funds and direct investments by thrifts and savings and loans.

Gray said the Federal Home Loan Bank Board could not have seized Lincoln at the end of his tenure in mid-1987 because Congress had allowed the bank board's preemptive authority over state savings and loans to expire.

Gray's successor, M. Danny



Sen. Alan Cranston
Called 'panic-stricken officeholder'

Wall, subsequently was granted such authority in September 1987, yet Wall called off the audit of Lincoln after he met and talked several times with Cranston, Gray said.

"Isn't it interesting that (Cranston) didn't say anything about Danny Wall?" Gray said in a telephone interview Tuesday. "It wasn't me that kept it for two more cisco-based firms recommended it."

Cranston a for allowing pany, Ameri of Phoenix, uninsured su

that became worthless when the company became insolvent last year.

Cranston repeated those charges on the floor of the Senate on Tuesday, as he introduced a bill that

would allow the bonds to be issued by a state government for a formal responsibility today, Fla.

chased govern-

(Mount Clipping in Space Below)

Cranston Goes on the Offensive

■ **Politics:** The senator changes his tactics and attacks his chief accuser in the Lincoln Savings & Loan scandal.

By JOHN BALZAR
TIMES POLITICAL WRITER

Protesting his innocence and proclaiming his good intentions have not succeeded in clearing his name. And neither has lying low, waiting for the storm clouds of scandal to blow over. So reelection-minded U.S. Sen. Alan Cranston changed his tactics Wednesday and hurled a fuming broadside against his prime tormentor—former federal bank board chief Edwin J. Gray.

"A publicity-hungry political hack . . . Gray lies . . . lies over and over in the Hitlerian technique of the Big Lie," Cranston said.

This was the opening, and certainly the most lively, move in yet another attempt by the beleaguered Cranston to save his political future from the angry backlash over Lincoln Savings & Loan's collapse.

Cranston said that as his new political offensive develops in the days ahead, he will offer something to try to help those 23,000 or so Californians who lost their savings when they bought uninsured bonds at Lincoln branches. Details will come soon, he said.

His goal is to redefine just what the fuss is all about with Lincoln, its chairman, Charles Keating, and California's senior senator in America's most expensive—\$2 billion—S&L failure.

Don't blame me, Cranston said at his Wednesday press conferences in Los Angeles, San Francisco and Sacramento. Blame Ed Gray, the senator said.

"Gray was the man in charge when savings and loan institutions throughout the nation were heading into disaster, and he shares responsibility for a scandal that will probably cost taxpayers upward of \$250 billion," Cranston said.

So far in the long-running debate over his role in Lincoln's crash, Cranston and four other U.S. senators have shouldered plenty of the blame. The five accepted

Keating's generous political contributions and then went to federal regulators on Keating's behalf in the midst of a federal investigation of Lincoln. Cranston accepted more than any of them—\$850,000 in contributions for three voter registration groups and \$47,000 in direct contributions.

The rub comes in what Cranston and the other senators did when they intervened for Keating at a pair of meetings in April, 1987.

Cranston has repeatedly said he did nothing more than prod the Federal Home Loan Bank Board under Gray to speed up a long-running audit of Lincoln. This is the kind of help he gives constituents and California businesses regardless of whether they are contributors, Cranston insisted.

Gray, however, charged that Cranston and the other senators joined in pressuring him to withdraw a regulation restricting how much an S&L could invest in things like junk bonds and real estate developments rather than home mortgages. The regulation was opposed by Keating. And instead of a routine inquiry by senators on behalf of constituents, Gray has called the episode tense and awkward and altogether extraordinary.

The Senate Ethics Committee is now reviewing the case.

Politics-minded Californians are keenly aware, though, that Cranston's helping hand for Keating has grown into a larger

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LOS ANGELES TIMES

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and stickier image problem for the venerable senator, long the champion of the "little guy." Now, he stands accused of having helped a "big guy," a big contributor, in a sequence of events that ended up costing many ordinary Californians their savings and their jobs.

Cranston bored in Wednesday on the narrower issues of how he disagreed with Gray's version of their encounters and select events, casting the matter as a debate between two politicians—a test of credibility between Cranston and Gray, a Democrat vs. a Republican, a senator against a former press aide to Ronald Reagan. In short, an old-fashioned political spat.

"This investigation is basically premised on the falsehoods of one Ed Gray. When it becomes clear that he is not a man to be relied upon in word or in deed, I expect that the charges against myself, [and Sens.] John Glenn, John McCain, Dennis DeConcini and Don Riegle will be looked upon in a very different light," Cranston said.

"Gray is a public relations expert by profession. He knows he can tell just about any kind of lie about a politician these days and be believed—especially if he repeats those lies over and over in the Hitlerian technique of the Big Lie."

Gray, who is now a Florida savings and loan executive, was on vacation, reportedly out of the country, and could not be reached for comment.

In his broadside, Cranston blamed Gray for six "lies" that have misshapen public perceptions about the events.

Cranston said it is a "lie" that he pressured Gray. Gray has said he felt pressured.

The senator said it is a "lie" that meeting with senators was anything but routine. "Gray preverts that meeting, making it sound like a sinister cabal," said Cranston. Indeed, Gray does. "I felt a tenseness in the air, an awkwardness that was overwhelming. Just me and five senators in a room. Nobody else to record what was said," he has said.

Cranston said it is a "lie" that his intervention delayed federal regulators in acting. Among those who have made this suggestion is House Banking Committee Chairman

Henry Gonzalez (D-Tex.).

Cranston said it was a "lie" when Gray allegedly told an interviewer that the \$850,000 in Keating contributions were to help Cranston get reelected. Actually, the contributions were for voter registration drives during the 1988 presidential race, not Cranston's 1986 reelection. Gray reportedly described the voter registration groups as "phony," which Cranston said was another "lie."

The senator plans to spend this week and next trying to regain the offensive and to discourage a growing number of fellow Democrats who are stepping all over each other—half a dozen or more of them—to test the idea of running against him in the 1992 senate primary. Cranston accused them of "ghoulishness."

One of the keys to his plan apparently is to offer help of some sort for those Californians who bought bonds at Lincoln branches. Many of the buyers now say they believed the bonds were backed by government deposit insurance. They were not, and are now without value.

"When the facts get known to them, and when it becomes apparent to the bond holders what I have sought to do, and am seeking to do, and am about to do more for them than any other single person, expect perhaps the attorneys representing them, I think their attitudes will change," Cranston said.

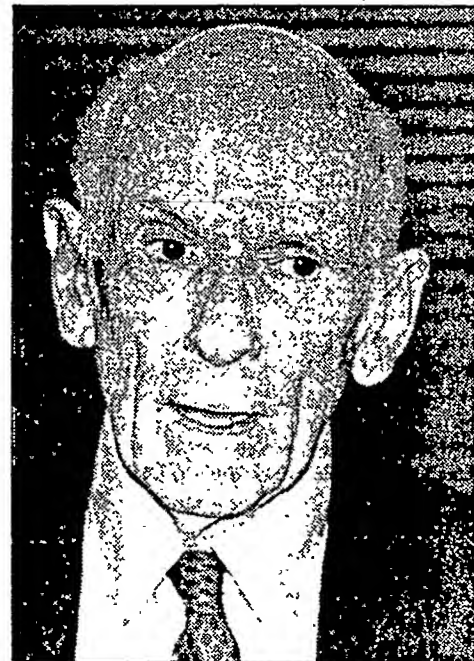
Polls in the state show a profound plunge in Cranston's popularity ever since his role in Lincoln was disclosed. But he gave no quarter Wednesday, after two weeks on vacation to brood over it.

"I come before you bloodied but unbowed," he declared. "I assure you I have just begun to fight."

And then the 75-year-old Cranston told a fable. It was about three elderly gentlemen who were talking about where they would like to be buried. One wanted to be buried next to Cleopatra. Another said he wanted to be buried next to Marilyn Monroe. The third said he wanted a plot beside Elizabeth Taylor.

"But wait a minute," the others shouted. "She's not dead yet," Cranston continued. "Neither am I, the third one said."

Times staff writer Sara Fritz in Washington contributed to this story



MICHAEL EDWARDS / Los Angeles Times

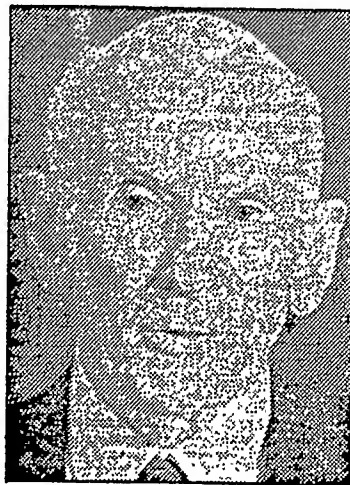
U.S. Sen. Alan Cranston appears at press conference Wednesday morning.

(Mount Clipping in Space Below)

Cranston takes case to the public

*Calls his accuser
a 'Hitlerian' liar*

By PATRICK MCGREEVY
and MARK BARNHILL
Daily News Staff Writers



Alan Cranston
Mounts defense in scandal

Escalating his defense against misconduct charges, Sen. Alan Cranston bitterly accused former U.S. banking regulator Edwin J. Gray on Wednesday of lying with a "Hitlerian technique" to implicate him in the collapse of Lincoln Savings.

At press conferences in Los

Angeles, San Francisco and Sacramento, Cranston called the former Federal Home Loan Bank Board chairman a "political hack" who falsely portrayed Cranston as responsible for delaying government action against Lincoln.

Cranston, who has previously attacked Gray, stepped up his rhetoric in comparing him to Adolf Hitler.

"He knows he can tell just about any kind of lies about a politician these days and be believed, especially if he repeats those lies over and over in the Hitlerian technique of the Big Lie," Cranston said.

Gray was vacationing in Europe and could not be reached for comment.

In testimony before the House Banking Committee in November, Gray accused Cranston and four other senators of trying to "subvert the regulatory process" on behalf of Charles H. Keating Jr., chairman of Lincoln's parent company.

Keating and his associates steered a combined \$1.3 million in political contributions to the senators, including \$897,000 that went directly to Cranston's campaign or political groups that he controlled. The Senate Ethics Committee has opened an inquiry into the senators' actions.

Cranston — faced with growing political damage from his intervention with regulators on behalf of the failed thrift — sidestepped questions about Keating during his

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press conferences on Wednesday, saying, "I want a chance to have people hear about Mr. Gray."

Asked if he had become an advocate of Keating, the senator replied, "I was asking in behalf of Lincoln, Mr. Keating, stockholders, 23,000 employees of Lincoln and people who made deposits there."

Acknowledging that some observers are already writing his political obituary, Cranston vowed to

**"He knows he can
tell just about any
kind of lies about a
politician these days
and be believed,
especially if he
repeats those lies over
and over in the
Hitlerian technique
of the Big Lie."**

— Sen. Alan Cranston
criticizing former banking regulator
Edwin J. Gray

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run for re-election and win in 1992.

"I'm not dead yet," he said. "I come before you bloody but unbowed, and I assure you I have just begun to fight.

"I've had an unchallenged, unblemished record of integrity during my more than 20 years in the Senate, and I'm not about to let one man get away with destroying that record and ending my career in public life," he said.

Cranston's approval rating and political credibility have plummeted since his links to Keating and Lincoln Savings were disclosed last year.

Potential challengers have begun lining up to run against him in 1992, and at least one colleague has announced he will challenge Cranston for the job of Democratic whip, the second-ranking leadership position in the Senate.

At the same time, the Senate Ethics Committee is conducting a preliminary inquiry into the conduct of Cranston and Sens. Dennis DeConcini, D-Ariz; John McCain, R-

Ariz.; John Glenn, D-Ohio and Donald W. Riegle, D-Mich.

At the center of the controversy are two meetings the senators had on Keating's behalf with federal regulators who wanted to close down Lincoln Savings.

The first, on April 2, 1987, involved Gray and all the senators except Riegle. The second, seven days later, involved the five senators and bank board examiners from the regional office in San Francisco.

Gray, in testimony before the Banking Committee, accused the senators of trying to "subvert the regulatory process" by summoning him to explain the Lincoln examination. During the meeting, Gray said, DeConcini offered a "quid pro quo" deal on behalf of Keating, and "none of the other senators objected."

All five senators disputed Gray's assertion that a deal was offered, but Gray testified that their denial "is simply not credible."

Cranston complained Wednesday that Gray's account "perverts that meeting, making it sound like a sinister cabal.

"Each senator had his own reason for going to that meeting," Cranston added. "I went solely to get a speedier decision on the audit, one way or another."

Gray's description of the meeting and his allegation that pressure was exerted are among several "outright lies" by the former banking regulator, Cranston said.

Others include the implication that the senators' intervention delayed bank board action against Lincoln, when in fact Gray testified that he took no action as a result of the meeting.

Gray also lied, Cranston said, by declaring in a television interview that Cranston "got \$850,000 from Keating for some phony voter reg-

istration groups to help him win his election."

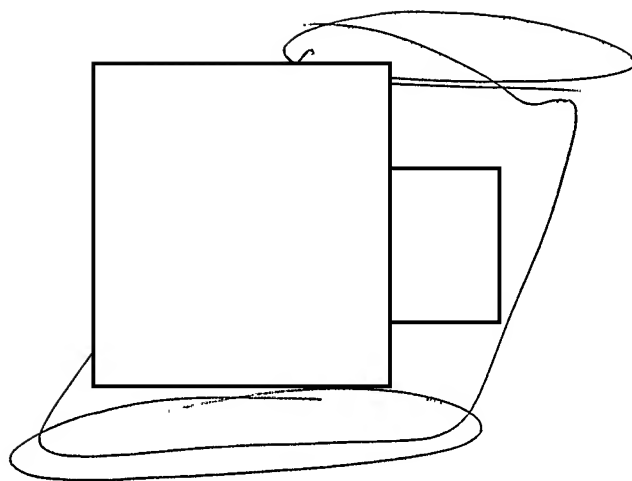
"Those were not 'phony' voter registration groups," Cranston said, describing them as "bona fide non-partisan organizations" that were certified by the IRS.

Although the voter-registration drives were billed as non-partisan in tax records, The San Francisco Chronicle has quoted several recruiters for the groups who said they were instructed to register only Democrats, a charge being investigated by the FBI.

Cranston also said the money was donated during the 1988 presidential campaign, "and had nothing to do with my Senate election two years earlier."

Cranston accused Gray of trying to avoid blame for the \$250 billion S&L collapse and in particular the Lincoln failure, which is expected to cost taxpayers \$2.5 billion.

This story was reported by Patrick McGreevy in Los Angeles and Mark Barnhill in the Daily News Washington Bureau. James W. Sweeney contributed from the Daily News Sacramento Bureau.



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(Mount Clipping in Space Below)

Van de Kamp's S&L role hit

By BETH BARRETT
Daily News Staff Writer

In one of the first jabs of her gubernatorial campaign, former San Francisco Mayor Dianne Feinstein charged Tuesday that Attorney General John Van de Kamp failed a year ago to halt the sale of \$10 million in now-worthless junk bonds by Lincoln Savings and Loan's parent company.

Speaking at a fund-raising dinner in San Francisco held by the 49ers National Football League team, Feinstein said her opponent in the 1990 Democratic primary "dithered," rather than stop the sales to protect unsuspecting investors.

Feinstein was campaigning Wednesday in Los Angeles, but did not return phone calls. Her spokeswoman Dee Dee Myers said Feinstein was attending a private fundraiser.

"The point she wanted to raise was what John Van de Kamp knew, when he knew it and why he didn't move faster to stop it (the bond sales)," Myers said.

Van de Kamp declined, through a spokesman, to comment Wednesday.

"He's not interested," his spokesman Duane Peterson said.

Peterson said Feinstein's charge was not supported by state officials' statements.

"All I can say is, 'nice try,'" Peterson said. "The lawyer that handled the case for the state Department of Savings and Loan has said plainly that the enforcement action against Lincoln Savings and Loan was taken in accordance with the department's procedure and analysis, and that nothing in that action was changed at our office's request."

Feinstein's comments followed Department of Savings and Loan examiner Richard Newsom's accusation at a Nov. 29 Assembly committee hearing that a deputy attorney general weakened a cease-and-desist order in December 1988. Newsom said the original

order could have halted the sale of American Continental Corp. bonds by exposing insider trading violations among Lincoln officials.

Peterson said the deputy, C.H. Rehm, was not requested by Department of Savings and Loan officials to act on the order. Further, Peterson said Newsom's information was second hand, because he was not directly involved in the conversation between Rehm and the thrift department's counsel Shirley Thayer.

Thayer has denied that language in the order was removed at Rehm's request.

Assemblywoman Cathie Wright, R-Simi Valley, on Tuesday said four state thrift regulators will be subpoenaed to testify to Newsom's charges during a Dec. 20 hearing before the Subcommittee on Savings and Loan Law and Regulation.

Wright said Tuesday that if Newsom's assertions are substantiated, she may ask that legislation be drafted to protect investors in the future, and to place stricter controls on the Justice Department.

One of the regulators who has been subpoenaed, counsel H.R. Harvey, said he is prepared to support Newsom's account.

Newsom, in a letter to the Assembly committee last week, claimed the Attorney General's Office and his own agency tried to cover up their roles in squelching the order.

Van de Kamp said his office's involvement is a "delicate matter," because it also is defending state officials in a civil lawsuit filed on behalf of 23,000 junk bond buyers who are claiming \$250 million in losses.

The estimated \$2.5 billion collapse of Irvine-based Lincoln and the bankruptcy of American Continental last April are the subject of a federal \$1.1 billion civil racketeering lawsuit, and a federal criminal investigation.

(Indicate page, name of newspaper, city and state.)

DAILY NEWS
SAN FERNANDO, CA
THURS., DEC. 14, 1989
VALLEY PG. 12

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HIT

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The activities of American Continental's chairman Charles H. Keating Jr. and other company executives also are being scrutinized by the Federal Bureau of Investigation, the Internal Revenue Service and the Securities and Exchange Commission.

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Ex-Aide to Riegle Received \$85,000 From Bank Group

By PAUL DUKE JR.

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON—The staff director of the Senate Banking Committee said he received \$85,000 in consulting fees from the American Bankers Association between the time he resigned from the staff of Sen. Donald Riegle (D., Mich.) and the time he took his current post, 18 months later.

While the director, Kevin Gottlieb, hasn't been accused of violating any ethics rules, the disclosure of the contract comes at a time of heightened sensitivity to congressional influence on banking regulation. Sen. Riegle, who became chairman of the banking committee and hired Mr. Gottlieb in January, is among five senators under investigation by the Senate Ethics Committee for their intervention with regulators on behalf of Lincoln Savings & Loan Association of Irvine, Calif.

Mr. Gottlieb said the American Bankers Association contract didn't entail any lobbying. He said he receives honoraria for some of the 60 or so speeches he makes a year, but that none of this money comes from anyone with business before the committee.

The staff director said he has asked the ethics committee for direction in reporting this money. In required financial disclosures, Mr. Gottlieb said, he followed instructions he received from the ethics committee in 1982 in lumping his honoraria—sometimes more than \$50,000, as in 1986—together as income from his consulting firm, Kevin Gottlieb & Associates Inc. Most staffers don't have incorporated consulting firms and are required to itemize such payments.

Mr. Gottlieb disclosed the 17-month consulting contract and his contact with the ethics committee in an interview with the Detroit Free Press over the weekend. In an interview with The Wall Street Journal yesterday, he said the American Bankers Association contract was the only one he had with any financial trade group or institution in the period between his Senate jobs.

He said he did receive \$535,000 as head of the Outdoor Advertising Association, the billboard trade group, during the same period, as well as \$105,000 from Sen. Riegle's re-election campaign, of which he was chairman.

It was after winning the election that Sen. Riegle became banking committee chairman and Mr. Gottlieb assumed the committee's top staff post.

Under the American Bankers Association consulting contract, Mr. Gottlieb "took a look at their communications" with member banks and with Congress, he said. He said he advised the group on its "generic" exchanges with its members and congressmen, not on specific contacts with individuals. The American Bankers Association confirmed that the contract was for "consulting on grass-roots communications and grass-roots development activity."

Mr. Gottlieb said the ABA couldn't have known that he would become staff director of the banking committee when the contract was initiated in mid-1987. Former Sen. William Proxmire (D., Wis.), then chairman of the banking committee, hadn't yet announced his resignation, which opened the path for Sen. Riegle to become chairman. "And it was unclear whether the Democrats would even be in the majority," and thus in control of chairmanships, Mr. Gottlieb said.

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Keating blames regulators

Ex-owner says he could save Lincoln

By Elaine S. Povich
Chicago Tribune

WASHINGTON — Charles Keating Jr., the Phoenix millionaire who headed the failed Lincoln Savings and Loan Association of Irvine, predicted Friday he could return the thrift to profitability if he wins his case against the government and regained control of Lincoln.

Testifying in US district court, Keating blamed hostile regulators for causing the collapse that led to the US takeover of Lincoln in April. Government officials predict the Lincoln failure eventually could cost taxpayers \$2 billion, making it the most costly bailout of a savings and loan in the nation.

"We were making money right up until the end," Keating testified. "If they left us alone, we still would be making \$100 million a year."

Keating is challenging the government's takeover. When regulators took over Lincoln, they con-



Charles Keating Jr.
'We were making money'

tended the association's government-insured deposits had been used for risky land deals and other speculative investments. Investigators concluded the operation was being conducted in an "unsafe and unsound" manner.

Keating testified about his lengthy dealings and confrontations with US regulators throughout the late 1980s. He had an especially rocky relationship with regulators in the San Francisco office and eventually asked that he be regulated by someone else. That request was granted by the Federal Home Loan Bank Board in Washington.

US District Court Judge Stanley Sporkin, a former chief enforcement officer of the Securities and Exchange Commission, appeared

Please see **LINCOLN/26**

amazed at the change in regulation, calling Keating "lucky" to be able to pull it off.

"We (at the SEC) wouldn't have shifted people around at the request of someone under investigation," he said.

Sporkin is conducting the preliminary hearings to decide whether Keating should be granted a full trial in his suit to recover Lincoln. Regulators also are suing Keating, members of his family and other corporate officers to recover \$1.1

billion allegedly lost through fraud and racketeering.

In court papers, the government questioned a "tax-sharing" deal between Lincoln and its parent company, American Continental Corp., also owned by Keating.

But Keating, sitting calmly on the witness stand and at times seeming to take control of the proceedings, denied "with all my heart and soul" using Lincoln assets to prop up American Continental and siphon off \$94 million for the

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ORANGE COUNTY REGISTER

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parent company. None of the money apparently went for taxes, according to regulators.

Sporkin, who prepared a lengthy list of questions for Keating, asked if Lincoln was being used as a "piggy bank," a place to get cash for Keating's other business interests.

"I had no concept remotely like that," Keating said.

Outside the courtroom, Keating spoke to reporters and predicted he could return Lincoln to profitability.

"Savings and loans, if regulations are properly applied, can operate profitably," he said.

Keating faced detailed and lengthy questions by Sporkin, who asked about a land deal of Keating's in which the true buyer of the land was not listed anywhere in the sale documents.

"The essence of the problem is that the regulators didn't like land syndications," Keating said, adding that "straw buyers" were common in such deals, in which real estate is sold to a group of inves-

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tors. Government regulators contend the entire deal was a sham.

There was no indication when Sporkin would rule on Keating's legal motions. Keating's attorneys said they had at least nine days worth of testimony yet to present to Sporkin.

Keating also has become involved in a political scandal regarding his \$1.3 million in contributions to five senators who intervened with regulators in an effort to slow the proceedings against Lincoln.

On Friday, Keating denied trying to "buy" the politicians.

"The answer is, I did not," Keating said.

After the Lincoln takeover in spring, Keating told reporters: "One question, among the many others raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause. I want to say, in the most forceful way I can: I certainly hope so."

The past's prologue for Sen. Cranston

By Harold Johnson

Maybe the most surprising thing about the influence-peddling scandal that seems to be closing in on Sen. Alan Cranston is that anyone is surprised.

Cranston is accused of selling his senatorial services by collaring regulators in behalf of Lincoln Savings & Loan, a go-go thrift whose owner was pointing a fire hose of cash in the senator's direction. What's so curious is that much of the press coverage implies that this affair is a startling anomaly, the first case of Cranston stumbling from the straight and narrow.

What a horselaugh. The truth is, Cranston's game of footsie with Lincoln's owner, Charles Keating, didn't represent anything new. In his fevered quest for greenbacks, the senator had long made a habit of contorting himself into compromising positions.

It's time for a history lesson hearing back to the mid-1960s, when Cranston was state controller. While

Nearly 80 percent of the state's 148 appraisers anted up for Cranston in 1964

holding that office, he indulged in a fundraising orgy that reeked of possible payoffs and palm-greasing the same way his shenanigans with Keating do.

Some background: Through most of the '60s, the controller had the job of appointing inheritance-tax appraisers who determined the assessments on estates. The appraisers made out nicely — by one estimate, pulling down between \$40,000 and \$62,000 annually by 1966, kingly sums in those days.

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The rap against Cranston? He was accused of handing out those lucrative jobs in return for a cut of the action — a neat, clean kickback. At least one ex-appraiser aired that charge publicly in 1964, when Cranston was a candidate for the Democratic nomination for US senator. The accuser said he "in effect; bought my job as California State inheritance tax appraiser by contributing for the election of Alan Cranston" After he was appointed, he claimed, he continued writing checks under the "impression ... that the unwritten and unspoken rule was that you contributed as requested or else."

Cranston cried foul, indignantly denying he had twisted any arms; and, indeed, he was never charged with any crime. But what he couldn't deny was that scores of appraisers had in fact lavished dollars on him, and he had accepted their offerings.

A political scientist who later studied the '64 senatorial campaign said that nearly 80 percent of the state's 148 appraisers anted up for Cranston that year, and that as much as 30 percent of his total campaign donations came from that source. In a study financed by the Ford Foundation, John R. Owens of UC Davis said that "the high rate of contribution" by appraisers indicated "there was little doubt in the minds of most (of them) that they were expected to give."

The issue was a bludgeon in the hands of Cranston's foes. Pierre Salinger, his opponent in the '64 senatorial primary, called it a "major scandal." One candidate for the GOP nomination derided Cranston for "lack of character" in accepting donations from people he appointed, and labeled him "a hypocrite who apparently observes no ethical standards but prescribes them for others."

Cranston lost to Salinger in the primary and was a loser again two years later when he sought re-election as controller. The appraiser controversy dominated both races.

But time proved his ally. When he ran for the Senate again in 1968, the furor had been largely forgotten, and he won.

Date page 1
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pg H3

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The controversy shouldn't be allowed to rest in peace, because it offers valuable perspective on the S&L furor and points up a pattern in the senator's career. Don't let anyone tell you Cranston has never before been caught with his head jammed in the honey pot. He appears to have a sweet tooth that won't quit, and he's often seemed to show more imagination than scruples in finding ways to feed it.

Mr. Johnson writes for the Register's Opinion pages.

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JAN 8

FBI - LOS ANGELES

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'Keating 5' Senators Activate

Damage Control

■ **Thriffs:** Riegle and DeConcini pay for ads in home states while Cranston, McCain and Glenn respond to scandal over Irvine-based Lincoln S&L.

By JOHN FLESHER
ASSOCIATED PRESS

WASHINGTON—Senate Banking Committee Chairman Donald W. Riegle Jr., one of five lawmakers facing ethics investigations in the scandal involving Irvine-based Lincoln Savings & Loan, is starting a TV campaign aimed at limiting political damage back home in Michigan.

Sen. Dennis DeConcini, D-Ariz., is shelling out \$190,000 for newspaper and TV ads in his state.

The other three senators, including California's Sen. Alan Cranston, are defending themselves in varied forums but have yet to pay for newspaper or broadcast access to voters, according to staff members.

Riegle aide David Krawitz said Monday, "There have been inaccurate and sensational news stories about this matter, and in order to get the full and accurate story out, we're showing this program on cable."

Krawitz said the Michigan Democrat would use campaign money to rebroadcast a 30-minute TV

interview in which he responded to questions about his involvement with Charles H. Keating Jr., head of the failed thrift. The program will air on cable stations throughout Michigan, possibly this week. Aides said they do not know how much the broadcast will cost.

DeConcini announced his ad blitz Friday at a press conference in Phoenix, saying he would run newspaper ads and commercials of two to five minutes on TV to tell his side.

"I have decided to take my case directly to the people of Arizona," DeConcini said. "I do this not as a criticism of the press, but because I do not believe that the facts have been adequately heard and understood."

At the center of the controversy are two meetings senators had on Keating's behalf with federal regulators. The first, on April 2, 1987, involved Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, and all the senators except Riegle. The second, seven days later, involved the five senators and bank board examiners from San Francisco. The

regulatory examination of Lincoln was discussed at the latter meeting.

The government seized control of Lincoln on April 14, 1989. The eventual cost to taxpayers is expected to reach a record \$2 billion.

Riegle, DeConcini and Cranston—as well as Sens. John McCain, R-Ariz., and John Glenn, D-Ohio—are subjects of a Senate Ethics Committee inquiry.

The five received a total of more than \$1.3 million in campaign contributions from Keating, who headed the Irvine thrift, and his family and business associates.

Riegle, who later returned the money he received from the Keating group, avoided public comment on the controversy for much of last year. He began granting interviews on the subject in November to home-state reporters, saying he wanted to set the record straight.

He discussed the Lincoln affair in many interviews while traveling across Michigan during the holiday recess, Krawitz said. One of those was a Dec. 10 appearance on a half-hour program on Detroit station WXYZ, during which he was questioned by two reporters and a moderator.

Riegle is paying to rebroadcast that interview, which aide Carolyn

Wallace described as "a fair presentation . . . a tough and frank discussion, and because it's a half-hour and provides a more complete picture" than the typical news story.

Money for the broadcast will come from Riegle's campaign treasury, Wallace said.

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"The goal is to start this week, but it's not certain," she said.

Glenn has held lengthy press conferences and interviews, including meetings with newspaper editorial boards in Ohio, but has no plans to advertise, spokeswoman Rebecca Bell said.

Cranston has attended public meetings at which questions were raised about his involvement in the Lincoln case. "He took them as they came," said Victoria Lion, a spokeswoman for the California Democrat. "He has been very accessible to the press."

Last month, an angry bondholder in Lincoln's parent firm, American Continental Corp., interrupted a panel discussion on women's rights in Santa Ana to criticize Cranston for soliciting money from Keating and for being insensitive to the plight of victims. A staff aide said that throughout his tour of California last month, reporters and others quizzed him repeatedly about his role in the scandal.

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Cranston wishes he hadn't met Keating

By Jerry Roberts
San Francisco Chronicle

SAN DIEGO — Saying he wishes he had "never met Charles Keating," Sen. Alan Cranston staunchly defends the propriety of his own actions in the Lincoln Savings scandal.

Delivering the keynote address Friday to a convention of the California Newspaper Publishers Association, the California Democrat struck a highly personal tone in explaining his actions in the Lincoln case, which threatens his long political career.

"Frankly, I wish I'd never met Charles Keating. I wish I'd never raised a dime from him," Cranston said.

"But I have faith in the capacity of the people of California to separate fact from fiction," he added. "I'm confident that in the course of time, they will know that Alan Cranston has not changed his stripes, and that the causes that have motivated my public service to California will continue to be my guiding compass."

Cranston is under fire for having accepted nearly \$1 million for

his campaigns and causes from Keating. Most of the money came after Cranston and four other senators interceded on Keating's behalf in 1987 with federal regulators who were conducting a lengthy probe of Lincoln's finances.

Losses at the thrift, seized by the government last April, might cost taxpayers \$2.5 billion. Cranston and the other senators are now being investigated by the Senate Ethics Committee.

Friday, Cranston said he acted only after Keating came to him

with what appeared to be a "legitimate complaint."

"What would you do if a businessman heading a very large operation in California came to you and said his business with 740 California employees and more than 120,000 depositors was being harassed and given the run-around by the federal bureaucracy?" he said.

As he has done previously, Cranston also attacked former chief thrift regulator Edwin Gray for making "wild charges to the press."

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Cranston tries to shift blame for Lincoln

By Chris Knap
The Register

SACRAMENTO — Sen. Alan Cranston on Wednesday strove to shift public attention from his advocacy on behalf of Lincoln Savings and Loan to the inaction of a former federal regulator who has been his vocal critic.

During a three-city, damage-control blitz of news conferences, Cranston simultaneously criticized one-time thrift supervisor Edwin Gray for not seizing the Irvine-based chain in 1987 and suggested that it was unwise for regulators to take Lincoln "at any time." Lincoln was seized April 14, 1989.

Cranston minimized the effect that \$970,000 in political donations he solicited from Lincoln owner Charles Keating and his associates might have had on the senator's numerous interventions on Lincoln's behalf.

And he insisted that his contacts with federal regulators were appropriate, although he confirmed that he was "acting as an advocate for Lincoln, Savings and Loan (and) for Mr. Keating."

Cranston said Gray, now a bank president in Florida, is attempting

to destroy his political career with "the Hitlerian technique of the big lie" to cover up his own failings as a regulator.

The lie, Cranston said, is that the senators' advocacy delayed a regulatory decision on Lincoln's fate.

"I blame Gray for not seizing (Lincoln), since ultimately it was seized," Cranston said. "They should have either taken action or not have taken action. It was the inaction that permitted the (unsecured) bonds to be sold and the situation to get to the point that when it was closed, a major loss occurred."

Gray, a Cranston critic who has said that the senator's efforts were designed to pressure regulators, could not be reached for comment because he is on a two-week vacation to Spain. Cranston said he was unaware of that when he scheduled the news conferences.

But Orange attorney Ron Rus, who represents the 11,500 consumers who bought \$192 million in now-worthless bonds sold at Lincoln, ridiculed Cranston's statements.

"What he's saying is if Gray had stopped the Ponzi (fraud) scheme before it started, Lincoln wouldn't have had to perpetuate it after it

got going. It doesn't make any sense to me," Rus said.

"Any Ponzi type of scheme happens by getting the best lawyers and the best accountants on board. If you can add a cloak of legitimacy by getting the best politicians, you are facilitating the scheme.

"The unfortunate thing is that, knowingly or unknowingly, the senator had become part of Keating's air of legitimacy that helped

bully the regulators. So it seems inappropriate for him to blame it on Gray."

The Lincoln collapse, which is expected to cost the federal government \$2 billion, has become a major political liability for California's senior senator. Now, some of his fellow Democrats are saying Cranston should not run again in 1992 and several California congressmen have suggested that they will run for the seat he has held since 1969.

"I come before you bloodied but unbowed," Cranston told reporters in Los Angeles, San Francisco and the state Capitol. "I assure you I've only now begun to fight."

Cranston made no attempt to disguise what his 19-page press release clearly labeled an attack on Gray.

"I would like to have people focus on Mr. Gray," he told a Sacramento reporter who tried to question him on other aspects of the case. "I just want to discuss my topic today."

Cranston said Gray, as the chief thrift regulator from 1983 to 1987, shares responsibility for the \$250 billion collapse of savings and loans across the country.

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Under questioning by reporters, Cranston said other blame for the continuing savings-and-loan crisis should be distributed widely.

"The difficulty started with President Reagan, and deregulation. It goes on to Mr. Gray, and the people working under Mr. Gray in the Federal Home Loan Bank Board, and it goes on to savings-and-loan institutions themselves where graft and dishonesty and corruption was involved, and it certainly goes on the members of the US Senate and the Congress.

"Everybody shares some of the responsibility; there's no evading that fact."

But Cranston charged that Gray is motivated by "the time-honored practice of government bureaucrats to cover their behinds when they've goofed up."

Cranston conceded that his statements during an April 1987 meeting were "what (Keating) wanted." But he continued to deny that his own meetings — at least eight with Gray, Gray's successor M. Danny Wall, and other thrift regulators — constituted a lobbying effort to keep Lincoln free of regulatory control.

(Mount Clipping in Space Below)

Cranston — California's master of political hardball

A recent letter to the San Francisco Chronicle from a reader bemoaned the "current Cranston-bashing" stemming from U.S. Sen. Alan Cranston's questionable efforts on behalf of Lincoln Savings and its owner, Charles Keating.

The collapse of Lincoln is the nation's costliest thrift failure to date, and may cost taxpayers more than \$2 billion.

Federal regulators have charged that the S&L was misused by Keating to prop up land developments and other shaky business ventures.

Keating, who showered campaign checks on politicians lavishly, enlisted the aid of Cranston and four other senators in his efforts to stave off a federal regulatory crackdown.

Cranston, who directly and indirectly received nearly \$900,000 from Keating-connected sources, has seen his popularity among California voters plummet, and there are ever-stronger calls among Democratic Party leaders that he not run for a fifth-term re-election in 1992.



**Dan
Walters**

Cranston, however, has been stumping California in an effort to shore up his much-deteriorated political position, insisting that he did nothing legally or ethically wrong, and also insisting that he will run again.

"I think Alan Cranston is one of the finest U.S. senators in my lifetime," the Chronicle letter-writer said.

"His character has not suddenly, after all these years, become flawed. We must consider all of the good legislation he has supported, all of the good fights he has made.

"I'm certainly not willing to accept that he is tarnished, temporarily or permanently, and I certainly hope his political career is not finished."

The letter was so gushily pro-Cranston, it might have been

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written by one of his aides. The key phrase is the one that declares "his character has not suddenly, after all these years, become flawed . . ."

That is precisely what Cranston hopes will become the prevailing public attitude.

His political career dates back nearly a half-century, and until now, he has enjoyed consistently strong public credentials for character.

Cranston wants the perceived decades of good to outweigh the perceived moments of lapsed judgment. But is it really true that Cranston was a paragon of political virtue for all of those years?

The record indicates otherwise.

While he has enjoyed an extended honeymoon with the Washington media that has largely shielded his darker side from exposure, Cranston has been a political hardball player from the earliest days of his career, and one who, reformist rhetoric aside, was often cozy with special-interest pleaders.

It's not for nothing that Cranston evolved into one of Washington's —

and one of California's — most productive harvesters of campaign checks.

For nearly two decades, until Pete Wilson won a Senate seat in 1982, California's other U.S. senator was an ineffective politician: George Murphy, John Tunney, or S.I. Hayakawa.

When aerospace executives, corporate farmers, Hollywood tycoons, savings and loan moguls, or other moneyed interests from California needed help in Washington, they went to Cranston. And as he helped them, they helped him with big campaign checks.

The Lincoln case was not even the first time Cranston had helped somebody from that industry, not by a long shot.

In 1979, at the behest of California savings and loan executives, Cranston carried legislation protecting them from having to offer interest-bearing checking accounts, to cite but one example.

While posturing publicly as an opponent of defense spending, Cranston carefully exempted

California-built weapons systems, such as the B-1 bomber, from his criticism.

He reserved his dovish condemnation for such non-California weapons systems as the MX missile.

Nor has Cranston been as high-minded about politics as he portrays himself.

Tom Braden, a one-time California newspaper editor and now a nationally syndicated columnist, says that in 1964 Cranston tried to get him to publish a sexually explicit, highly compromising photo of a political opponent.

Braden said later, "I considered it slime."

These and other incidents from the Cranston past indicate that far from the temporarily tarnished angel that he and his supporters portray him as being, Cranston is a coldly calculating, money-conscious politician who helps his friends and hurts his enemies.

What he did for Lincoln wasn't unusual. What's different is that this one blew up in his face.

Dan Walters is a columnist for The Sacramento Bee.

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Keating adds ex-S&L regulator to suit, claims he had vendetta

Arizona Republic

WASHINGTON — Charles H. Keating Jr. on Thursday added former thrift regulator Edwin Gray as a defendant in a federal lawsuit, accusing him of leaking confidential information that led to the demise of Lincoln Savings and Loan.

The suit, brought by Keating, alleges that federal regulators waged a vendetta against Keating's Irvine-based thrift and leaked sensitive information about it to the press. Keating said regulators opposed Lincoln's investments in real estate and junk bonds.

"These improper leaks of confidential information have seriously damaged the reputations of Lincoln and American Continental Corp. and have damaged their existing and prospective business relationships," said a statement issued by American Continental, of which Keating is chairman.

Gray, the former head of the Federal Home Loan Bank Board, is vacationing in Europe and could not be reached for comment.

He is the chief accuser of the "Keating Five" senators, whose intervention with federal regulators on behalf of Keating in 1987 has come under Senate ethics scrutiny. Gray has come under increasing attack by two of the senators involved in the debacle — Democratic Sens. Dennis DeConcini of Arizona and Alan Cranston of California.

Most recently, Cranston in a series of appearances in California this week, branded Gray a "liar" and said he is "perpetuating an outrageous scam and getting away with it" in making false statements about the role of the five senators on behalf of Keating.

DeConcini earlier this month also lashed out at Gray during a series of public appearances.

Lincoln was seized by federal regulators last April and its failure is expected to become the nation's costliest S&L failure. Keating raised at least \$1.3 million for the five senators who pressed his case before federal regulators.

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Cranston bill could let S&L losers sue US

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Bad-bond holders cannot now apply for federal bailout

By Larry Peterson
The Register

LOS ANGELES — US Sen. Alan Cranston said Friday that he might try to clear the way for a federal bailout of the people who bought \$192 million in now-worthless bonds through Lincoln Savings and Loan.

The beleaguered Democrat raised the possibility as he continued his campaign to make former bank official Edwin Gray rather than himself the goat for the financial havoc wreaked when Lincoln collapsed in April.

Attention since the closure has focused on charges that Cranston and four other senators intervened with federal regulators on behalf of former Lincoln owner, Charles Keating, a major bankroller of the lawmakers' campaigns.

Cranston said at a news conference that the 11,500 bondholders do not have the right to sue the US government for their losses. Under most circumstances, the govern-

ment cannot be sued without its consent.

"One way (to help bondholders) could be legislation to grant them that right," Cranston said. "I'm considering that. I'll have an announcement on that shortly."

Taxpayers already are paying a \$2 billion bailout to cover losses on federally insured deposits at Lincoln.

Cranston released documents that he said show that Gray let Keating's American Continental Corp. sell uninsured bonds at Lincoln branches even though Gray's staff voiced concerns about the sales and about Lincoln's solvency.

Gray has blamed intervention by Cranston and the other senators for delays in stopping Lincoln bond sales.

The documents Cranston released are mostly reports by the Office of Thrift Supervision, the successor agency to the Federal Home Loan Bank Board, formerly headed by Gray.

The Gray-led bank board, the reports said, let American Continental "incur future indebtedness in any form" up to \$366.5 million. Cranston called that a "green light" to sell uninsured bonds, one of several means the company

used to raise money.

The documents also indicate that earlier the board staff voiced concerns about the financial condition of Lincoln and American Continental and that the bonds were being sold based on "false and misleading documents."

Cranston said the board's inaction establishes "responsibility of the US government ... for the plight of the bondholders..."

Gray, vacationing in Spain, could not be reached for comment.

But Ron Rus, an Orange lawyer representing the bondholders in a lawsuit against Keating, his accountants and lawyers, said Gray had little to do with the bonds sold by Lincoln.

Rus said the bonds were licensed by the California Department of Corporations and most of them did not go on the market until after Gray left the board.

But Rus said he would welcome legislation waiving federal immunity against lawsuits.

"We would be delighted, provided that he retains within the context of the bill that ... the responsible parties should be held accountable," Rus said. "It's all right as long as the government goes after the parties who created the fraud."

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There is no way of knowing whether Cranston could persuade Congress to approve relief for bondholders, said Shirley Lampel of Tustin, one of those who lost money when Lincoln collapsed. But Lampel, who met with Cranston on Thursday, believes Cranston is sincere.

Cranston, who solicited nearly \$900,000 from Keating and his associates for his 1988 re-election campaign and voter-registration drives, is under a Senate ethics inquiry.

Cranston said it is unlikely that a suit against the government could proceed until the bondholders litigation against Keating and his associates is resolved, which he said could take years.

There is at least one precedent for holders of bonds being bailed out by federal taxpayers.

In 1985, the Federal Deposit Insurance Corp. refused to reimburse bondholders of Golden Pacific National Bank in New York after FDIC closed the bank. But a federal court ruled in 1986 that FDIC was required to honor the bonds, which totaled \$16 million.

Register Staff Writer Jonathan Lansner contributed to this report

Key Aide to Cranston Lobbied for Keating

■ **Thriffs:** Carolyn Jordan wields power as a member of the Senate's banking panel staff. Her role in the Lincoln affair has received little attention.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—If there is one key supporting player to Sen. Alan Cranston's role in the Lincoln Savings & Loan scandal, by all accounts it is Carolyn D. Jordan, an influential aide who serves as his alter ego on banking issues.

Jordan, who has worked for Cranston for 19 years, contacted state and federal regulators last year on behalf of Lincoln owner Charles H. Keating Jr. at a time when Keating was making a last-ditch effort to stave off the \$2-billion collapse of his Irvine thrift. She also enjoyed Keating's hospitality during an all-expenses-paid trip to Lincoln headquarters in Phoenix in 1987, financial disclosure records show.

Moreover, Jordan clearly concurred in Cranston's decision to assist the owner of the Irving thrift in his battle against federal regulators—a decision he has since come to regret as "a pretty stupid thing, politically."

The 46-year old Jordan, a former Los Angeles attorney whose appointment to the Senate Banking Committee staff in 1974 was considered a breakthrough for blacks and women, is an example of the little-understood but important role played in Senate offices by an inner corps of senior aides. Working outside the glare of the public spotlight and largely unknown beyond the halls of Congress, these aides wield power and influence over the shaping of policy and the actions of the senators they work for.

These aides exist primarily because senators, each representing an entire state, must deal with a range of issues and constituencies so broad that no individual can master the details of all of them. The staffers called on to help meet this challenge then develop expertise and networks of operating relationships that make them formidable figures in their own right.

In the Senate, where Jordan ranks among the most powerful female staffers, she is admired for her extraordinary grasp of issues involving financial institutions. Cranston apparently values her banking expertise so much that he allows Jordan to speak for him without consulting him first.

But Jordan is also widely regarded as a hard-ball operative with a jaundiced view of the political process—"the most cynical person I've ever met," in the words of one acquaintance.

And outside the Senate, Jordan is known to dabble in local politics.

A longtime supporter of District of Columbia Mayor Marion Barry, she has been chosen as a minority partner—along with some of Barry's closest associates—in two major redevelopment projects in Washington. For an initial investment of only \$11 of her own money and \$250,000 in borrowed funds, according to city records, she was given a potentially profitable share in a multimillion-dollar deal.

Jordan's role in the Lincoln affair has received little attention so far.

Unlike Cranston, who frequently defends his involvement with Lincoln, Jordan does not discuss her actions on behalf of the Irvine thrift and insists that she has no obligation to answer reporters' questions because she is not an elected official.

Rejecting a Times request for an interview, she declared: "You can print anything you want."

Against Regulation

Over the past few years, Jordan made no secret of her disdain for government regulators who were trying to crack down on thrifts they thought were risking depositor funds in dangerously speculative investments.

Like Cranston, she was particularly critical of Edwin J. Gray, the former chairman of the Federal Home Loan Bank Board who sought to rein in the most aggressive thrifts and has since become Cranston's chief accuser in the Lincoln affair.

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One former bank board employee during Gray's tenure recalls that Jordan, who had herself apparently been considered for a position on the bank board during the Jimmy Carter Administration, never missed an opportunity to ridicule Gray. "She thought he was a real dodo, a dumb jerk," the former employee recalled.

Jordan's views on federal regulation of the industry, according to acquaintances, were strongly influenced by executives of high-flying thrifts in California, such as Lincoln and Columbia Savings & Loan in Beverly Hills. As a result, her opinions sometimes diverged from those of the California League of Savings & Loans, which supported Gray.

Wields Influence

Clearly, Jordan has enjoyed Cranston's full confidence for many years. And like many Senate staffers who have been given wide latitude by powerful bosses, she

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has never shown any reluctance to wield her considerable influence.

Indeed, Jordan's manner bears no resemblance to her nickname: Mousy.

"I felt like she maybe orchestrated a lot on her own hook," said a former federal regulator who recalled being "thrown out" of Cranston's office by Jordan. "Cranston gave her a long leash and she used it. . . . She wields authority and has a presence."

Gray recalled that whenever he testified before the Senate Banking Committee, Jordan was the aide who sat beside Cranston and consulted with him between virtually every question.

"She fed him all the questions," said Gray. "She's the current prince of the Senate. It's true."

Common Views

Cranston's involvement with Keating began in 1985, when the owner of the Irvine thrift held the first of two fund-raising events that raised a total of \$39,000 for the senator's 1986 reelection campaign. Their meeting occurred at a time when Lincoln was under investigation by the bank board and Keating was battling efforts by Gray to crack down on aggressive thrifts.

Although Keating is a Republican, an aide to the Arizona businessman said, conversations between Keating and Cranston usually centered on their mutual support for deregulation and their low regard for Gray.

Jordan's free trip to Phoenix occurred in April, 1987, within a week after Cranston and four other senators summoned Gray to Capitol Hill to discuss the bank board's proceedings against Lincoln. Gray contends the senators sought to persuade him to withdraw a regulation opposed by Keating.

According to her annual financial disclosure report for that year, Jordan received free lodging in Phoenix from American Continental Corp., Lincoln's parent company, during the week of April 13. She reported that her round-trip air fare, which included a stop in California, was paid for by a California thrift industry association.

When asked about the trip by a reporter for the San Jose (Calif.) Mercury News last November, she was quoted as replying: "You think we paid ourselves—be serious. We do these things all the time. There's nothing unusual about it."

Indeed, Jordan's annual financial disclosure reports show that she took 10 trips in 1987 and 1988 that were paid for by banks, thrifts or

financial groups, some of them to resorts such as Palm Springs, Calif., and Key Largo, Fla. Among the thrifts that paid for her travel was Columbia Savings & Loan, which shared her goal of deregulating the S&L industry.

Calls to Regulators

But it was not until early 1989, when Keating was seeking permission from state and federal regulators to sell his failing savings and loan, that Jordan became actively involved in lobbying on his behalf, according to the officials involved. Keating ultimately failed to win approval of the sale of Lincoln, which was seized by the government last April 14.

Darrell W. Dochow, executive director of the bank board's office of regulatory affairs, has said that he received a telephone call last Feb. 8 from Jordan, who demanded to know why the bank board had not approved the Lincoln sale.

"I informed Ms. Jordan that we did not have a complete application from the investor group and that from what we had seen, numerous questions remained to be answered," Dochow later wrote in a memo to his files about Jordan's inquiry, a copy of which was obtained by the Times.

"She inquired as to why we were so concerned with Lincoln, who had net worth of over 4% [a basic measure of financial soundness], and I responded that its reported net worth is significantly overstated . . . and that I had serious concerns over its operations."

The telephone call was one of two inquiries that Jordan made with Dochow about the proposed sale, according to the bank board official. He said she also approached him briefly to discuss the proposed Lincoln sale during a trip he made to Capitol Hill during that

period to testify before the Senate Banking Committee.

Likewise, William Davis, deputy to California Savings and Loan Commissioner William Crawford, said he received a similar call from Jordan in March, 1989.

"She called and just informed me that Sen. Cranston's office thought a sale was a good idea," Davis recalled. "It certainly didn't mean much to us at the time."

Jordan previously has said that she does not remember telephoning Davis.

Highly Irregular

Although it is not unusual for congressional staffers to contact regulatory agencies on behalf of constituents, regulators said it is highly irregular for them to advocate a particular result. Normally, congressional aides only request information about regulatory matters.

Like Jordan, however, many members of the Senate Banking Committee staff are known to be close to the financial industry they oversee. Several of Jordan's partners in the real estate developments in which she has invested also have close ties to the banking industry. Others are government contractors or lobbyists.

Washington real estate industry officials said developers have routinely selected close friends and supporters of Mayor Barry to serve as limited partners in building projects that require city approval. These appointments satisfy a law requiring minority participation in all District of Columbia development projects.

City records show that Jordan became a limited partner in an office and shopping complex at the main downtown subway hub known as Metro Center in September, 1986, for an initial investment of \$11. Her financial disclosure records show that she recently

made an additional investment of at least \$250,000, all of which she borrowed from one of her partners in the project with a promise to pay it back when the development is completed and begins to generate income for her.

In 1987, likewise, Jordan made an initial investment of \$50 to become a limited partner in another big redevelopment project known as the Portals, according to city records. But when the minority investment was challenged as "window dressing" by another developer, the partnership arrangement was revamped to meet the approval of the Redevelopment Land Agency.

As a result, Jordan was required to make an additional contribution, which one official estimated to be between \$6,000 and \$13,000. In exchange, the developer promised the Redevelopment Land Agency that the seven minority investors would receive a total of at least \$1.75 million over 10 years.

Memos indicate political pressure influenced Lincoln thrift inquiry

By Ricardo Sandoval
The Register

Federal thrift regulators yielded to intense political pressure brought by Lincoln Savings and Loan owner Charles H. Keating Jr. in their oversight of the institution, according to documents obtained by the Register.

Regulators have said Keating's lobbying, which included millions of dollars in political donations as well as requests to US senators to intervene on his behalf, did not sway them.

But a letter to Keating from one of his company's outside attorneys and an internal memo back up complaints by lawmakers and Lincoln customers that the government gave in on one key decision: It rejected a 1987 recommendation

by regulators in San Francisco to seize Lincoln.

The Federal Home Loan Bank Board, now the Office of Thrift Supervision, subsequently started a lengthy, Washington-based examination of the institution.

Regulators say their decision

was based not on political efforts by Keating, who complained about the duration and tactics of the initial examination, but on problems they found with the work done by San Francisco regulators.

The delay of the takeover — Lincoln was seized April 14, 1989 — was critical because it allowed the continued sale of uninsured bonds. In all, 11,500 Lincoln customers invested \$192 million in the bonds, which now are worthless. Lincoln's failure is expected to cost taxpayers as much as \$2.5 billion in a federal bailout.

In a letter to Keating dated May 10, 1988, attorney Margery Waxman tells him: "You have the (federal bank) board right where you want them and you should be able

to reach an agreement tomorrow which will completely satisfy you."

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A day later, a preliminary agreement between Keating and bank-board chairman M. Danny Wall set the stage for transferring the Lincoln investigation to Washington-based examiners.

Wall, contacted at his Virginia home Wednesday night, denied having been influenced by Keating's lobbying, and said Waxman's letter "sounds like a lawyer trying to justify a fee."

"I know (Waxman), but I have no idea why she would come up with that letter. I don't recall ever having met with her in regards to Mr. Keating," he said.

Waxman was not available for comment.

Wall recently left his post as head of the federal Office of Thrift Supervision after criticism from Congress of his handling of the Lincoln case.

He has said the agreement with Keating was developed out of meetings between his staff and officials of Lincoln's parent company, Phoenix-based American Continental, and that its goal was to gain access to corporate files — not readily available to thrift regulators — and monitor its activities more closely.

The American Continental memo to Keating, marked "confidential," details conversations between regulators and Keating lawyers in which regulators appear to give American Continental a voice in how the examination will be run.

Peter Fishbein, Keating's outside counsel, says in the memo that the regulators would supply American Continental with the names of its examiners beforehand, "... and (bank regulator Daryl) Dochow said he would listen to any objections that we might have to the suggested people."

Regulators typically do not clear the names of examiners with the targeted institution.

One of those examiners, Kevin O'Connell, had raised objections to the terms of Keating's agreement with Wall. In the memo, Dochow is said to have told another regulator that O'Connell "will not be involved with this."

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Dochow could not be reached for comment Wednesday. In past testimony before the House Banking Committee, however, Dochow acknowledged he made mistakes in the investigation into American Continental and Lincoln.

Subsequently, American Continental did violate its agreement, sparking increased scrutiny by

regulators and the eventual seizure of Lincoln, said Karl Hoyle, a former bank-board official who said he was involved in the meeting that produced the agreement between Keating and the government.

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Hoyle said the confidential memo is untrue and overstates American Continental's influence. Hoyle said it was Wall's plan to gain Keating's confidence with the agreement, thereby allowing regulators a closer look at American Continental's records.

Waxman's letter uses strong language in advising Keating how to strike the most favorable deal:

"As you know, I have put pressure on Wall to work toward meeting your demands and he has so instructed his staff. They all know the Wednesday (May 11, 1988) meeting is crucial to their future. If they mess up this time, it is all over."

The letter instructs Keating to bring up specific points in his meeting with Wall and regulators. They include:

■ That "San Francisco is finished. There is no going back to San Francisco and nothing can be done to follow up their exam."

■ That "this is no 'monitor' on Lincoln. You will take responsibility for communicating with Daryl (Dochow) on a regular basis whenever there is something that he should be made aware of."

■ And, that "nothing will be done in the exam that you are not aware of in advance."

Hoyle, who recently left his position as spokesman for the OTS, said that Wall never put any pressure on regulators to bend to Keating's demands.

Keating began to confront regulators in spring 1987, when he asked five US senators, including California's Alan Cranston, to meet with top banking regulator Edwin Gray, and challenge the government's long-running evaluation.

Then on Feb. 5, 1988, Keating proposed to Wall and Dochow, through Waxman, that Washington regulators take over the Lincoln examination.

The next month, officials at the State Department of Corporations gave American Continental a two-month extension to sell its bonds to the public, despite the concerns of other state regulators.

In May 1988, nine days after the formal agreement was reached between federal regulators and Keating, the state approved another extension of American Continental's bond sale.

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“ You have the (federal bank) board right where you want them and you should be able to reach an agreement tomorrow which will completely satisfy you. ”

Attorney Margery Waxman
in May 10, 1988, letter to Keating

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EDITORIALS

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Senator Moneybags

A few weeks back, that large-hearted servant of the public, Sen. Alan Cranston, introduced a bill to bail out the 23,000 people who bought uninsured and now-worthless bonds from Lincoln Savings & Loan before it was seized by the feds. How kind of the senator. As usual, however, it's with taxpayers' money that he's being generous.

What's his motive? He claims he's driven solely by concern for the investors holding empty bags. But some other possibilities also suggest themselves. Could his action have anything to do with the way he's been pummeled for playing footsie with Lincoln's owner, Charles Keating? You don't have to be a cynic to wonder.

However, now comes a report suggesting even another angle. It turns out that Mr. Cranston introduced the legislation after the bondholders' law firm donated \$22,000 to his campaign fund. The *San Jose Mercury News* broke the story the other day: It seems the San Diego firm of Milberg Weiss Bershad Specthrie & Lerach gave most of

the money to Mr. Cranston at a fundraiser hosted by one of its partners in early December. It was about six weeks later that the bill to aid their clients was unveiled.

Coincidence? Maybe. But as so often with Sen. Cranston, it's a coincidence that involves big dollars — and invites at least the suspicion of a quid pro quo.

If the legislation is a form of appeasement, or a variation on hush money, it may be working. Consider: In December, Shirley Lampel, an outspoken leader of the bondholders, made the senator squirm at an Orange County forum on women's issues by blasting him for his role in the Lincoln affair. Yet when Ms. Lampel emerged from a private session with the senator afterwards, her tune had changed: "He's on our side," she trilled. Meaning what? Perhaps an oily offer of a tax-supported bailout.

In this case "our side" doesn't mean the taxpayers' side. It's hardly a reassuring precedent to say that investors who took risks, or didn't read the small print, are entitled to panhandle the rest of us.

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'Kids played games,' Keating aide says

Regulation by junior auditors described

The Associated Press

WASHINGTON — The chief aide to Phoenix millionaire Charles H. Keating Jr. describes federal regulators who seized Keating's Lincoln Savings and Loan Association last year as "kids playing games."

Testifying on Keating's suit to overturn the takeover of the \$5.5 billion S&L last April, Judith Wischer said the government put junior auditors in charge of reviewing the thrift's assets when Keating was trying to sell the institution in late 1988 and early 1989.

"We found that at this very serious time in our lives, we were assigned to kids who were playing games with us," Wischer, president of Lincoln's parent company, American Continental Corp., said in U.S. District Court yesterday. "But they had the upper hand."

For several hours yesterday, as Keating sat with his attorneys in the courtroom, Wischer recounted with frustration various events between 1985 and the government takeover of Lincoln four years later in what she described as an "escalating battle of experts."

In May 1988, when American Continental and the bank board signed a memorandum of understanding calling for a new audit, she said, "We thought for the first time since that we had a settlement" that was binding on both sides.

That memorandum was widely criticized in hearings before the House Banking Committee last fall. Among the provisions was the removal of jurisdiction over Lincoln from San Francisco regulators who in May 1987 recommended seizing the thrift then.

Regulators now in charge of the S&L bailout contend the two-year delay in closing Lincoln could cost taxpayers up to \$2 billion.

Only four months after signing the May 1988 memorandum, however, Lincoln officials became disillusioned again when regulators raised new complaints about tax-sharing and other agreements that had been approved earlier, Wischer said.

As a result, Wischer said, Keating and his top advisers concluded they could never operate Lincoln successfully because of what he and some bank board officials have called a vendetta against them.

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Corbin coy on campaign, Keating cash

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I'm not trying to be coy," Bob Corbin told me Thursday afternoon.

I laughed. Saying that he is not trying to be coy is, of course, Bob Corbin's way of being coy.

It was a couple of hours after Democrat Terry Goddard officially announced that he was running for governor. I had called Corbin to ask him when he, too, would enter the race.

"I hope to make up my mind in the next couple of weeks," Corbin said, "but I've put no deadline on it."

"I've had a couple of occasions in the past where I've thought about it but decided to stay where I am. Now, I don't know."

On Tuesday, Corbin, a Republican, announced that he would not run for re-election as attorney general, a job he's had since 1978. He said that, among other things, he wanted to be able to spend more time in the Superstition Mountains, digging for gold.

Don't let that fool you.

The political mother lode, as far as Corbin is concerned, can be found on the ninth floor of the state Capitol's executive tower. For years, Corbin has waited for the right time to stake his claim to the Governor's Office. This election year is his best, and probably his last, chance.

"That's what everybody's telling me," he said. "I mean, I hear the polls, and they say I'm the only one who could give him (Goddard) a race."

Then he paused and added, "But I don't know."

He knows.

He knows that none of the announced Republican candidates has a chance against Goddard. Not Evan Mecham, who peaked four years ago. Not J. Fife Symington III, who peaked last year, about a day after he asked the press to start calling him plain old Fife Symington. Not Fred Koory, who has not peaked and never will.

Now is Corbin's time

If Corbin wants the job, and he does, now is the time to go for it. It's just a matter of picking the right time to make his own announcement.

"I didn't announce for this job back in '78 until very late," he said.

"I have an interest in Mayan and Incan history and such. And I told them then that I was going to

Picchu, sitting up there on the tomb of a priest, in the rain, and I decided that I'd run for attorney general."

Corbin isn't planning any trips to Peru these days. This decision is a easier:

I asked him what he thought of Goddard:

He said, "I'll tell you a story. I use the airlines quite often, and I know they (Phoenix officials) have parking passes for people in government out at the airport. When we had a Republican mayor, I couldn't get a pass. With Goddard, I called and asked for one, and within a week I had it."

"I called him afterward and said, 'Thanks a lot, Terry. I couldn't even get this from my own party.' I bet he wouldn't even remember that. But it's a true story."

It is also a way — some would say a coy way — of not answering the question.

"There's still plenty of time to decide to run or not," Corbin said. "But in all fairness, I should make the decision soon. A matter of weeks, I'd guess."

Last year, Corbin's office filed new charges in the Don Bolles murder case. At the time, Corbin's critics said this was done to help him in his re-election campaign. Soon, they'll say it was done to bolster his gubernatorial campaign.

"Sure, they'll hit me on Bolles, but that's not the way that happened," he said. "You just have to live with that kind of criticism. I'm used to it."

\$50,000 from Keating

Corbin also has \$50,000 in campaign contributions from Charles H. Keating Jr. and friends to answer for. Long after other politicians rushed to give Keating his money back, Corbin has kept the cash.

"I never promised him anything and have never done anything for him," Corbin said. "And I'm just hardheaded enough to think that if you give something back to the man, then it looks like you did something wrong."

I asked Corbin what he plans to do with the money.

"I've been accused that, if I don't run (for office), I'm going to keep it for my own personal money," he said. "Well, I could do that. It's legal. But I'd never do that."

If Corbin runs, however, he'll need a war chest. And Arizona law says that money collected during one campaign can be carried over to the next. Meaning that Corbin could, if he wanted to, take Keating's \$50,000 and run for governor.

I'm not suggesting that Corbin would do such a thing, however. I wouldn't do that. That would be

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E.J. MONTINI
Republic
Columnist

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Los Angeles Times

Charles H. Keating Jr.

Panel Cites Pressure From Keating

■ **Lincoln S&L:** The House banking committee chairman makes public a letter that he says suggests a 'fix was in at the Federal Home Loan Bank Board in 1988.'

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Congressional investigators Thursday disclosed what they said is evidence indicating that Lincoln Savings & Loan owner Charles H. Keating Jr. and top federal regulators had privately agreed to a plan in 1988 that helped the troubled Irvine thrift avoid government seizure for nearly a year.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) said a letter written to Keating by one of his attorneys, Margery Waxman, on May 10, 1988, suggests that a "fix was in at the Federal Home Loan Bank Board in 1988 to protect Charles Keating and Lincoln Savings."

It was the first evidence uncovered by the committee that appears to support Gonzalez's allegations that M. Danny Wall, then bank board chairman, was responding to personal pressure from Keating when he declined to take aggressive action against Lincoln before April, 1989.

In an interview, Wall, who recently resigned as chairman of the bank board's successor agency under pressure from Gonzalez, strongly denied there was any private agreement or that he had succumbed to pressure from Keating and his attorneys. Wall said he never met with Waxman in her capacity as Keating's attorney.

Keating's spokesman, Bradley J. Boland, said that Wall was simply agreeing

to a just resolution of the government's lengthy investigation of Lincoln's financial affairs. "We weren't conspiring with Danny Wall," he said.

The Office of Thrift Supervision, the bank board's successor agency, issued a statement saying that the Waxman letter "is riddled with errors and false conclusions."

Lincoln was not seized by the government until April 14, 1989, even though bank board regulators in San Francisco had recommended action against the Irvine thrift stemming from allegations of mismanagement as early as 1987. The San Francisco regulators were subsequently stripped of their regulatory responsibility over Lincoln.

Gonzalez and other critics have charged that by delaying strong enforcement action against Lincoln, the government drove up the cost to taxpayers of the thrift's collapse to an estimated \$2

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LINCOLN

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billion. Lincoln is expected to be the most expensive thrift failure ever.

In her letter, Waxman told Keating that "you have the [bank] board right where you want them" and predicted that Wall would agree to Keating's demands during a telephone conversation between the two men later that day. Waxman indicated that Wall already had expressed a favorable attitude toward Keating's demands.

"As you know," she wrote, "I have put pressure on Wall to work toward meeting your demands, and he has so instructed his staff."

The letter was written five days after the bank board voted 2 to 1 to remove the Lincoln case from the jurisdiction of the San Francisco office. It outlined five demands that Keating was to make during his conversation with Wall, most of which eventually were accepted by the bank board.

Although the five steps previously have been portrayed by Wall as tough enforcement actions that were resisted by Keating, the Waxman letter suggests that Lincoln officials actually were pleased with the way the bank board had agreed to resolve the matter.

"The letter . . . tracks with amazing accuracy the actions taken by the board—actions which were interpreted publicly as clamping down on Lincoln," said Gonzalez. "In reality, as the letter carefully explains, the actions were to be shams designed not to punish but to allow Keating an escape route."

Wall has acknowledged that he

met with Keating personally at least three times while Lincoln was under investigation by the bank board and also that he talked with him occasionally on the telephone. But Wall has denied that those contacts influenced his handling of the Lincoln case.

On Thursday, Wall said that he initiated the telephone call to Keating on May 10, 1988, to tell him what the board had decided five days earlier and "to tell Keating to take it or leave it."

At its May 5 meeting, the bank board decided to execute a so-called "supervisory agreement" against Lincoln, freezing the thrift's investments at their existing levels. In addition, the board decided to send a team of examiners to perform "on-site monitoring" of all important business decisions undertaken by Lincoln officials.

After the exam, the board agreed, Lincoln could apply to be permanently supervised by another district office besides San Francisco, but only if the allegations raised by the San Francisco office were proven false.

In her letter to Keating, however, Waxman said that Wall was prepared to agree that the San Francisco office would never again have jurisdiction over Lincoln. At the end of the examination, she said, Lincoln would be permitted to choose the district office that would oversee its operations in the future.

Indeed, San Francisco was permanently barred from investigating Lincoln, and bank board officials tried without success to assign the Irvine thrift to the Seattle district office, which Keating had chosen. The proposed transfer was blocked by Seattle officials.

Cranston protests too much

By Dan Walters

SACRAMENTO — Sen. Alan Cranston, whose political support is plummeting faster than a Sierra avalanche, desperately appealed for relief last week to California's newspaper publishers.

Cranston, once the state's most durable politician, has been undone by his efforts on behalf of bankrupt Lincoln Savings and Loan and its owner, Charles Keating. The latest statewide poll indicates that nearly 70 percent of California voters oppose his seeking a fifth term in 1992.

Cranston complained that media coverage had been unfairly slanted against him and asked the executives to place themselves in his position.

"What would you do if a businessman heading a very large operation in California came to you and said that his business, with 740 California employees and more than 120,000 depositors, was being harassed and given the run-around by the bureaucracy?" Cranston asked.

"Would you try to find out why the audit was taking so long? That in fact is

all I did at the now-famous meetings of senators with Ed Gray, then head of the Federal Home Loan Bank Board," Cranston continued, insisting that Gray himself has not alleged anything more in sworn testimony.

And as for the hundreds of thousands of dollars that Lincoln and/or Keating gave to his political treasuries, Cranston said they had nothing to do with influencing his actions in the Lincoln affair, that he was just helping constituents.

It was a cleverly worded appeal, clearly designed to staunch the flood of negative media coverage of his actions on behalf of Lincoln, whose collapse last year left more than 20,000 Californians holding worthless junk bonds issued by Keating's parent company, American Continental.

But he ignored or glossed over some salient facts in his effort to portray himself as an innocent supporting player in the Lincoln drama.

Fact No. 1:

When Cranston joined other senators in 1987 to press Gray on regulators' handling of Lincoln, Keating already was a substantial campaign contributor, even though he is a self-proclaimed conservative Republican.

Keating directly and indirectly raised \$40,000 for Cranston's very tough re-election battle in 1986 and contributed another \$85,000 on his behalf to the state Democratic Party.

As *Business Week* later reported, on the night Cranston won re-election by a tissue-thin margin, "Keating was among the important contributors who

were ushered into [Cranston's hotel suite] to offer their good wishes. The pair met seven times between July, 1985, and September, 1987, in [Cranston's] Washington office."

And in subsequent years, Keating or associates contributed another \$850,000 to voter-registration committees founded by Cranston to boost the fortunes of himself and other Democratic politicians, one of which was headed by Kim Cranston, the senator's politically ambitious son.

For Cranston to imply that Keating was just a constituent ensnared in red tape, like a Social Security beneficiary seeking a lost check, is ludicrous.

Fact No. 2:

Cranston did considerably more than merely "find out why the audit was taking so long."

Cranston was one of five senators who met with Edwin Gray on April 2, 1987, to press Keating's claims that regulators were unfairly harassing Lincoln.

As Gray said in a letter last month to Cranston, "... you did not object even when your colleague, Sen. DeConcini, said he was speaking for all of you in his office that evening [and] sought to have me withdraw and therefore not enforce the very regulation against which Mr. Keating had sued us in federal court two weeks earlier."

Nor did Cranston merely attend a couple of meetings. He continued to promote Keating's interests, even after being told of a federal criminal investigation which scared off other senators.

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As late as April, 1989, just days before Lincoln was seized by regulators, Cranston was continuing to press officials to allow a sale of the institution to a group headed by John Rousselot, a former Republican congressman. And Cranston's chief banking aide, Carolyn Jordan, repeatedly contacted state and federal regulators on Keating's behalf. She, in fact, was making the most strenuous efforts on behalf of Keating last year just before the collapse.

Alan Cranston helped a big campaign contributor and it blew up. For him to contend — or pretend — otherwise is insulting.

Mr. Walters is a political columnist for the *Sacramento Bee*.

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Cranston aided Keating despite chance of probe

He suspected federal zeal, senator says

By Jerry Roberts
and Mark Z. Barabak
©1990 San Francisco Chronicle

Sen. Alan Cranston served as an intermediary between Charles Keating Jr. and the government even after he learned that federal regulators were seeking a criminal probe of Keating's Lincoln Savings, Cranston said in an interview.

Cranston said he was told by other senators after a controversial meeting April 9, 1987, that federal thrift regulators were making a confidential "criminal referral" about Lincoln to the Justice Department.

"There are constant times when criminal referrals are made by zealous or overzealous bureaucrats," Cranston said in explaining his continued involvement with Keating. "So you have to discount that kind of statement, and I did."

The senator's comments came in a lengthy interview with the San Francisco Chronicle, his most detailed yet on the Lincoln Savings failure.

In the interview, Cranston also:

- Revealed that he was the first senator approached by a Keating lobbyist in 1987, when Keating wanted lawmakers to meet on his behalf with federal regulators. Cranston refused, saying he was too busy.

- Said he could recall no other occasion when as many as five US senators met privately with a federal regulator, but said Lincoln presented an "extraordinary case justifying extraordinary steps."

- Acknowledged that he sometimes discussed Lincoln's problems with Keating when Cranston solicited money for voter-registration projects. There was no quid pro quo, Cranston insisted.

- Defended the operations of the nominally non-partisan voter-

registration groups, now under federal investigation, as complying with the letter of the law. But he added, "We're not in the business of recruiting for the Republicans."

- Said he understands how others see an appearance of impropriety in his relationship with Keating, who contributed nearly \$1 million to Cranston's campaigns and causes. "In retrospect, I see how people can read things into that. That I regret."

The Senate Ethics Committee is investigating Cranston and four other senators who received more than \$1.3 million in contributions from Keating.

The probe focuses on two meetings in April 1987 between federal thrift regulators and the five senators: Democrats Cranston of California, John Glenn of Ohio, Donald Riegle of Michigan and Dennis DeConcini of Arizona, and Republican John McCain of Arizona.

Cranston attended the first meeting with Edwin Gray, former head of the Federal Home Loan Bank Board, but appeared only briefly at the second meeting with regulators from the board's San Francisco office to say he shared "the concerns of the other senators on this subject."

Despite the suggestion of possible wrongdoing, he said his paramount concern was protecting thousands of Lincoln employees and depositors.

"I had concerns about (Lincoln) being driven into bankruptcy or driven out of business," he said. "That made it more important to get the matter wound up as far as I was concerned and to press for an end to the case."

After he learned about the criminal referral, Cranston said, he became a kind of mediator between Keating and federal regulators and sought to resolve quickly what had become a "very unpleasant situation."

The Irvine-based Lincoln was seized by federal regulators in April, a day after its parent company, American Continental Corp., filed for bankruptcy protection.

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Squad investigates gifts by chairman of failed CenTrust

By Dave Skidmore
The Associated Press

WASHINGTON — A "fraud squad" is investigating the legality of \$328,000 in political contributions by David Paul, free-spending chairman of failed CenTrust Savings Bank.

The propriety of meetings between Paul and politicians and regulators is also being examined, said L. William Seidman, chairman of the Federal Deposit Insurance Corp. and the Resolution Trust Corp.

Seidman estimated that the failure of the Miami-based CenTrust will cost taxpayers "probably in excess of \$2 billion," making it a rival to Lincoln Savings and Loan Association of Irvine, which many analysts list as the nation's worst thrift collapse at a cost of about \$2.5 billion.

"It's going to be a horse race, and I'm afraid that whoever the winner is, it's going to set a record," Seidman said after testifying to the House Banking Committee.

CenTrust, which spent millions of dollars on yachts, limousines and an art collection for Paul, was seized by the government Feb. 2. It made few residential mortgages and specialized in junk bond issues, many placed by Drexel Burn-

ham Lambert Inc.

Seidman told the committee that a "fraud squad" from the RTC, which took responsibility for the thrift after its seizure, is combing corporate records for evidence of law breaking.

"We will look at it (CenTrust's political spending) to see if it was raised in accordance with the law and spent in accordance with the law. If it wasn't, we will turn it over to the Justice Department," Seidman said.

Rep. Chalmers Wylie of Ohio, the ranking Republican on the banking panel, released a list of Paul's political contacts, which included a luncheon with former President Carter in June 1988.

Paul met twice with Sen. Donald W. Riegle, D-Mich., chairman of the Senate Banking Committee, in November 1987 and August 1988. The second meeting was in the office of Sen. Alan Cranston, D-Calif.

Both Riegle and Cranston are among the so-called "Keating five" — senators who accepted political contributions from Lincoln S&L owner Charles Keating Jr.

Paul's desk calendar, according to Wylie, showed that Sens. Bob Graham, D-Fla., and Timothy Wirth, D-Colo., members of the Banking Committee, and John Kerry, D-Mass., later a member of

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CENTRUST: Taxpayers' loss might rival Lincoln S&L case

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the committee, flew on CenTrust's corporate jet.

Paul held receptions aboard the "Grand Cru," his \$7 million yacht maintained at company expense, in September 1988 for Sens. J. Bennett Johnston, D-La., and John Breaux, D-La.

"I am concerned that David Paul could have far outreached Charlie Keating in exercising political ties," Wylie said.

Atlanta-based federal regulators told the committee that they were not contacted by politicians on behalf of CenTrust, although Paul frequently bragged of his connections.

"He tended to be a name dropper. I don't think we took him too seriously," said Maria I. Richmond, deputy director of the thrift office's Atlanta office.

Rep. Henry B. Gonzalez, D-Texas, chairman of the banking panel, emphasized Paul's close relationship with Republican regulators. Paul met four times with M. Danny Wall, chairman of the Federal Home Loan Bank Board — in September and November 1987 and January and June 1988.

He also hired as consultants Richard Pratt, then-President Reagan's first bank board chairman, and Thomas Vartanian, former general counsel of the bank board.

"Neither Paul nor Keating were slouches when it came to revolving doors," Gonzalez said.

Paul had originally been scheduled to testify to the committee,

but said through an attorney that he had not yet decided whether to appear. Gonzalez gave Paul two weeks to set a date and said he could be subpoenaed, if the committee approves.

According to a list of political contributions submitted by Seidman to the banking committee, most of Paul's contributions were to Democrats, although Republicans received some smaller donations.

Among contributions of \$5,000 or more were:

- \$5,000 in 1988 to Sen. Jim Sasser, D-Tenn., a member of the Senate Banking Committee and now chairman of the Senate Budget Committee.

- \$10,000 in 1989 to Sen. Joseph Biden, D-Del., chairman of the Senate Judiciary Committee.

- \$5,000 in 1988 to Sen. Frank Lautenberg, D-NJ.

- \$12,000 from 1987 to 1989 to Rep. Larry Smith, D-Fla.

- \$106,500 from 1987 through 1989 to Democratic fund-raising efforts.

- \$50,000 in 1986 and 1988 to the Alliance for Capital Access, a pro-junk bond lobbying group.

- \$5,000 in 1987 and 1988 to Rep. Richard Gephardt, D-Mo., who was running for president.

- \$10,000 to former Gov. Reuben Askew, \$15,000 to former Rep. Buddy McKay and \$5,000 for Florida Insurance Commissioner Bob Gunter, all running for the Senate in 1988.

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American Continental siphoned

U.S. lawyer says collectors never received money

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — American Continental Corp. tapped its subsidiary, Lincoln Savings and Loan, for more than \$14 million for taxes in 1987 but never passed the money on to federal or state tax collectors, government lawyers charged Monday. The transaction is an example of what the government has been con-

tending was a scheme by American Continental to use a tax-sharing agreement to siphon about \$94 million in federally insured deposits from Lincoln. Abuses of the tax-sharing agreement were alleged by the government in its racketeering lawsuit filed last September against American Continental officials.

Details about alleged abuses of the agreement were described during a hearing before U.S. District Judge Stanley Sporkin in which Charles H. Keating Jr. is challenging the government's seizure of Lincoln in April. The collapse of Lincoln is expected to cost taxpayers more than \$2 billion. On Monday, a key government

lawyer produced a June 30, 1987, memorandum that he said showed that American Continental misused the tax-sharing agreement to siphon millions from Lincoln rather than to pay its tax liabilities, as intended.

In the memo, Andy Liggett, chief financial officer of American Continental, instructed his counterpart at Lincoln, Kathy Rubino, to forward \$14.18 million a month earlier than was required to ease a cash crunch at the Phoenix-based parent.

"In light of AMCC's current cash needs, let's pay Lincoln's tax-sharing payment to AMCC on 7-1 or 7-2 (July 1 or 2)," the memo says.

It adds later, "Please arrange the

tax funds from thrift, court told

cash transfer ASAP.

James Murphy, the government's lawyer, said the tax-sharing agreement did not require Lincoln to make such payments until the end of the month.

Under the tax-sharing agreement, which had been approved by the government, Lincoln was allowed to pay its tax liabilities to American Continental.

Murphy said American Continental never paid Lincoln's taxes and instead used millions from the federally insured thrift to finance its own far-flung business deals.

The disclosure came as the government continued to cross-examine Judy Wischer, American Continental presi-

dent and a Lincoln officer.

Wischer disagreed with Murphy, saying the memo was only an attempt to notify Lincoln officials that such a payment was coming due.

In another development, Robert Wurzelbacher, once in charge of Lincoln's real-estate-development projects, testified that Keating had extensive experience in building successful master-planned communities in the Phoenix area.

Wurzelbacher sought to dismiss earlier testimony that land values at Keating's master-planned communities were inflated.

Outside the courthouse, Keating would not say what he told federal

regulators during a 1986 meeting with regulators.

Murphy said that during the meeting, Keating threatened litigation on regulators who were about to launch a new examination of Lincoln, and warned that he had an upcoming meeting with Rep. John Dingell, D-Mich., chairman of the House Energy and Commerce Committee.

Keating later said he met with Dingell but said it was about the savings and loan crisis in general, not Lincoln's problems in particular.

Dennis Fitzgibbons, a Dingell spokesman, said Keating met with Dingell to air "general complaints about thrift regulators."

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Keating witness rebuked

Judge calls view of expert 'bunk'

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — U.S. District Judge Stanley Sporkin on Tuesday lashed out at an expert witness who sought to blunt government claims that Lincoln Savings & Loan relied on accounting gimmicks to funnel millions of dollars to its parent American Continental Corp.

"It's just bunk," Sporkin told the witness, John Buckley, at one point.

Buckley, an accounting scholar at UCLA, was called by Charles H. Keating Jr.'s lawyers in an unusual hearing in which Keating is seeking to regain control of the thrift, based in Irvine, Calif.

Buckley testified that the thrift followed acceptable accounting procedures in valuing real estate in the Phoenix area.

But he attracted Sporkin's ire when he asserted that the best way to determine the financial ability of a real-estate syndicator is to study his "history of deal making" rather than to rely upon his financial documents. Land syndicators raise money from others to buy real estate.

"You may be telling your students this, but I wasn't born yesterday," Sporkin said. "I don't think this is sound. . . . It's just bunk."

Buckley was rebuked as he was discussing a March 1987 real-estate transaction involving Lincoln. In the deal, Ferdinand Acosta, president of Westcontinental Mortgage, a Tucson real-estate firm, acted as a "straw man" for Phoenix real-estate developer Ernest C. Garcia.

— See WITNESS, page A8

Witness for Keating rebuked

— WITNESS, from page A1

Buckley argued that Acosta had the capacity to shoulder the deal even if he was just standing in for Garcia.

Buckley said he based that assertion on his knowledge of just one prior instance in which Acosta had raised millions of dollars for a land deal.

Sporkin, rocking back in his black leather chair, asked Buckley whether he was suggesting that just because "an individual puts one deal together" that he can handle a \$14 million transaction.

"Is that what you're teaching your students?" Sporkin asked.

In the deal, Garcia bought a 1,000-acre parcel from Lincoln for \$14 million on March 30, 1987. But Garcia did not want the sale on his books so he turned to his friend Acosta and got him temporarily to put the deal on the books of his company, government lawyers said.

Acosta has testified that he had no financial stake in the deal, knew nothing about it, and placed the transaction on his company's books only as a favor to his friend Garcia.

Government lawyers assert that Lincoln ended up on both ends of the transaction because it sold the land on the one hand and provided the \$3.5 million down payment and a \$10.5 million loan for the balance on the other.

The government has presented the deal as one of a series of "sham" transactions that show the federally insured thrift was being operated in such an "unsafe and unsound" manner that regulators were forced to seize it last April.

The collapse of Lincoln is expected to cost taxpayers more than \$2 billion.

Earlier in the day, Buckley rejected a critical July 1989 audit of Lincoln's accounting practices that was prepared by the accounting firm of Kenneth Leventhal & Co.

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The report claimed that Lincoln's loans were poorly underwritten. It said Lincoln "was made to function as an engine designed to funnel insured deposits to its parent."

Buckley dismissed the report as "marred by hyperbole, misrepresentations, innuendo, unfounded inferences and gross generalizations." He said the tone of the report was "unprofessional" and "flippant."

The testimony came on the 14th day of a mini trial in which Keating is seeking to show that regulators had no grounds to seize the thrift.

Keating, who joined his lawyers in the courtroom, is not expected to take the stand until next week.

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Alan Cranston's storied past

By Buck Long
and Lawrence V. Cott

On Feb. 2, 1983, Sen. Alan Cranston, in announcing his candidacy for the presidency, immediately fell back on an old habit of embellishing his personal history. He told reporters, "I covered Hitler and Mussolini in the dark

The senior senator has a penchant for embellishment and the pursuit of hidden agendas

days of conquest and appeasement that preceded the Second World War. ... The war came. I declined deferment and enlisted in the Army." Three years later, the "biographical sketch" distributed by his press office provided more information on how he "covered" Hitler and Mussolini. It seems he had "joined the staff" of the old International News Service (INS) and "served as a foreign correspondent in England, Germany, Italy, and Ethiopia from 1936-38."

In truth, his "staff" position with INS was inter-

mittent. At first he was unpaid; in fact, most of the time he spent in England was unremunerated. His trip to Germany took place in 1934, during his summer vacation after his sophomore year in college, and the only reporting he did from there was for his hometown weekly in Mountain View.

More important, in 1938, he went to Ethiopia — having "officially resigned" from the INS but staying on as an unpaid stringer — as a guest of the Italian government, two years after the Italo-Ethiopian war had effectively ended. He promptly landed INS in a libel suit when in the *London Evening Standard* he reported as fact an atrocity story concocted by the Italians to discredit Haile Selassie, the Ethiopian ruler deposed by Mussoli-

Please see CRANSTON/02

ni's forces. The emperor sued INS in a London court and won \$80,000, a huge sum for the time. Cranston has yet to explain why, at least in this case, he evidently sided with fascist aggressors rather than their victims.

The Hitler suit

Cranston has instead preferred to draw attention to another outgrowth of his journalistic career: his oft-repeated claim that he was sued by Adolf Hitler for publishing a pulp edition of *Mein Kampf*. His 1986 press biography describes the incident as follows: "In 1939, Cranston, who had read *Mein Kampf* in the original when he was in Germany, discovered that a version being distributed in the United States had been carefully edited to delete sections that would arouse Americans to the Nazi threat. Cranston wrote an abridged but accurate tabloid version, interspersed with anti-Nazi explanatory notes. ... [S]ued in a Connecticut court for copyright infringement, [he and a partner] ceased publication." In earlier versions of his biography, he described his opponents in the suit as "Hitler's agents."

In fact, Cranston was sued for copyright infringement by the old-line firm of Houghton Mifflin, which had already published a translation of *Mein Kampf* replete with footnotes warning American readers of Hitler's aggressive intentions. Yet as late as April 1986, an article in *California* magazine described Cranston as "the only US Senator to have been sued by Hitler (for an unauthorized translation of *Mein Kampf* calling attention to the Fuhrer's anti-Semitism)," adding: "He also tried to help Jews fleeing Nazi Germany" (presumably during his brief summer visit). So much for Cranston the journalistic opponent of fascism.

What about his contribution to the real war against fascism, in which he supposedly turned down a deferment and enlisted in the Army? The war came in 1941. Cranston did not reject deferment and enlist until 1944. In the meantime he held a job at the Office of War Information, where his tenure as chief of OWI's Foreign Languages Division was marred by controversies that remain unresolved but bear unmistakable signs of what today is called a hidden agenda.

Cranston and Katyn

At OWI Cranston was responsible for distributing OWI press releases to foreign-language newspapers and radio stations in the United States. According to Cranston, his main achievement at OWI was to coordinate the renaming of a Chicago suburb in honor of Lidice, the Czech village wiped out by Nazi troops in 1942. However, Cranston's critics have long asserted that his work at OWI essentially centered on suppressing any news seen as unflattering to Stalin's Soviet Union. The most famous such case involved the Soviet massacre of Polish military officers in the Katyn forest.

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When, in April 1943, the mass grave at Katyn, near Smolensk, was pointed out to Nazi authorities then controlling the area, they were quick to identify the Soviet secret police as the murderers. The victims had not been seen since 1940, when they were still in Soviet hands as prisoners of war following the 1939 destruction of Poland by the then cooperating Nazi and Stalinist regimes. (Today, the Soviet press admits Soviet responsibility for the massacre.) When the story of Katyn emerged in April 1943, Poles could not bring themselves to lie about the character of the Soviet Union and Soviet designs on Poland, notwithstanding their desire for an Allied victory in the war.

News of Katyn arrived in the United States at a time when American liberals and social democrats were expressing doubts of their own about Stalin's Russia. One month before the Katyn story broke, the Soviets had baldly announced the execution in the Soviet Union of Henryk Alter and Viktor Ehrlich, two well-known leaders of the Bund, the Jewish labor organization active for decades in Poland and, naturally, suppressed in Russia. The Soviets and their American Communist pawns denounced Alter and Ehrlich as agents in a US-Polish plot against Moscow. The ghastly effrontery of this charge was greeted with protest by liberals and labor leaders in the United States, none of whom could be considered pro-Hitler, headed by such men as New York Mayor Fiorello LaGuardia, AFL President William Green, and Republican leader Wendell Willkie.

Indeed, the London-based Polish government in exile rejected the Soviet explanation of the Alter-Ehrlich crime the very weekend that news of the Katyn massacre broke. Nobody had more to gain from a victory over Hitler than the Poles and Jews; but at the same time, few in their ranks wanted to see such a victory turn into a victory for Stalin.

Out of this maelstrom comes the figure of Alan Cranston. Although his work did not involve him in the debates over Ehrlich and Alter, he was quick to interject himself into the Katyn controversy. As the official responsible for feeding war news to the ethnic press, Cranston responded to Katyn by trying to suppress the topic. Backed by OWI director Elmer Davis, Cranston committed the US government to the position that Katyn could only be a Nazi

crime.

At WJBK, a Detroit-area radio station, two Polish-language commentators clashed bitterly: one repeated the "official" line of the OWI, while the other read accounts from the Polish representatives in London. Cranston acted quickly to muzzle the latter speaker. At a meeting of broadcast executives shortly thereafter in New York, Cranston defended his decision and used the presence of a representative from the Federal Communications Commission to hint that conflicts over broadcasting content could lead to cancellation of licenses (even though the FCC has never had jurisdiction over content). One radio station manager subsequently confirmed in congressional testimony in 1952 that Cranston had attempted to "try to convince station WJBK ... not to permit those comments which would indicate Russian guilt."

Cranston himself testified in 1952 that he had only been trying to support the war effort, and had merely asked the offending broadcaster to limit himself to dispatches from "reputable American wire services" — meaning those approved by the Soviet government and the OWI. The 1952 congressional hearings turned up other examples of Cranston's mendacity. Cranston claimed the broadcaster in question was not fired; his contract, however, was not renewed. Calling all wartime warnings about Stalin's plans for Eastern Europe "divisive," Cranston impugned the patriotism of a principal writer for the largest Polish-language paper published in the United States.

What was Cranston up to in defending the Soviet version of Katyn? Herbert Romerstein and Stanislav Levchenko, authors of *The KGB Against the "Main Enemy,"* a reference volume on Soviet secret police activity in the United States, cautiously declare, "It is hard to tell whether this was overzealous patriotism (on behalf of a US wartime ally), but it served its purpose in covering up a Soviet atrocity."

Tresca and Karr

The problem is that Cranston's ingenuousness over Katyn was not an isolated incident. In 1943 his work at OWI also embroiled him in a controversy over the assassination of an Italian-American anti-Communist labor leader, Carlo Tresca. As pointed out most recently by Stephen Schwartz in *Commentary* (October 1988), much suspicion about Tresca's murder (which remains unresolved) devolved on the communists. Cranston's contribution to the case was to attempt to steer attention away from the communists with the outlandish claim that Tresca had come to favor collaboration with them. For this he was denounced by no less a figure than Norman Thomas, America's most respected radical elder, as well as by Max Eastman and other anti-communist intellectuals, and by Italian-American labor leaders.

Then there was Cranston's friendship with David Karr, with whom he had fallen in in the late 1930s. Karr was a free-lance writer for the Communist *Daily Worker* and Cranston brought him to OWI. Although Romerstein and

Levchenko say "there is no evidence [Cranston] understood he was being used by Karr," Karr was no innocent. He had been involved in NKVD activities in the United States at the side of a particularly nasty Soviet agent named Albert E. Kahn. After World War II, Karr became a major player in US-Soviet commercial activities. One of his last ventures involved him in the sale of Soviet gold commemorative coins, with the profits split with Armand Hammer's Occidental Petroleum. Following his death in 1979, *Fortune* magazine commented, "Whispers of a KGB connection followed Karr everywhere." Cranston said, "He has a strong social conscience that made him an intense promoter of detente."

In 1944, Cranston left the OWI. It was then that he turned down — or lost, according to at least one source — his latest deferment and enlisted. The time he says he spent in "the infantry" actually amounted to six weeks of basic training and living off-base with his wife. Soon enough he was reassigned to an information and education unit that produced lecture materials on Allied war aims.

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After the war

In the decade following the war, Cranston was known mainly as national head of the United World Federalists. There is no evidence he supported the pro-Soviet campaign of Henry Wallace, the 1948 Progressive Party presidential candidate. However, in the early 1950s, he returned to governmental politics as a founder of the California Democratic Council, an organization rather similar to the Reform Democratic clubs then favored by "progressive" Democrats in New York. One element in the founding of the CDC was the collapse of the Independent Progressive Party (IPP), the California wing of Henry Wallace's party. By 1952 it was clear that the Progressives' day had passed, and hundreds of California communists and communist sympathizers made their way into the Democratic ranks. Thus, it was no accident that the CDC early on adopted a position in favor of Red China, or that a later leader, Simon Casady, wound up a leading New Left figure in the sixties.

The disappearance of the IPP and rise of the CDC had something in common with the demise of the old American Labor Party (ALP) in New York, a local body under communist control. There was a marked difference, however, in the success each had in infiltrating the Democratic Party of their respective states. The New York ALP and the state's relatively large communist organization were based mainly in the remnants of communist-controlled or -influenced labor and ethnic groups, with slight representation among teachers, government employees, and other white collars. By contrast, the California left had its labor and ethnic allies, but it also enjoyed much greater support among the new intelligentsia and other elements of the Golden State's burgeoning middle class. Cranston emerged in the 1950s as a standard-bearer of this new-style "progressivism."

In some ways, he was an ideal choice. To die-hard fellow travelers, he could speak of peace and disarmament, and of his storied career as an anti-fascist. To the rest of the state's voters he would come to stress his local roots, his labor and civil-rights alliances, and, eventually, his age and physical fitness. He was elected state controller in 1958 (the first Democrat in that post in 72 years) and re-elected in 1962. Turned out in the 1966 Reagan sweep, he quickly regrouped and in 1968 won election to the US Senate, where he still sits.

Back in government

From the beginning of his second career in government, Cranston showed a curious addiction to the political methods he displayed during his tenure at OWI. Writing in the *San Jose Mercury News* in 1983, Carl M. Cannon described the senator as one who "since his early days in California ... has shown carelessness in his comments about opponents. He has been willing to attack them on grounds that have nothing to do with substantive issues — grounds, in fact, that are sometimes untrue."

One such incident involved a well-known liberal and potential rival for the 1964 Senate race whose service to the party dated from the New Deal. Cranston reportedly obtained a photograph of the individual in a sexually compromising position. He offered the photo to Tom Braden, the television commentator who was then editor of the *Ocean-side Blade-Tribune*, a local daily. Braden, who has "reluctantly" confirmed the truth of the story, added that he did not choose to go public with it for fear of harming the person in the photograph. "I considered it slime," commented Braden. "If I wrote about it, I would be the same as [Cranston]."

(Clipping in Space Below)

Braden added that he found it impossible to trust Cranston after this incident. "I considered it amusingly evil," Braden said.

Cranston has denied showing the photograph to Braden, but acknowledged that "somebody on my staff" may have done so. During his brief presidential campaign Cranston visited Braden's home and begged him to keep silent about the matter. (The individual in the photo has declined all comment.)

Cranston has employed similar tactics against Republican opponents. In 1966 he issued a document labeling gubernatorial candidate Ronald Reagan a "front man" for the John Birch Society. In 1983 he called Reagan a "tyrant." During confirmation hearings that year on Kenneth Adelman's nomination to head the Arms Control and Disarmament Agency, he charged Adelman with believing that "it would be helpful to the United States ... if South Africa were to use nuclear weapons against their own blacks or against neighboring blacks."

Cranston again used South Africa to sling mud at Republican opponent Ed Zschau in the 1986 Senate race. David Johnston, a political reporter for the *San Francisco Examiner*, saw links here to the old Cranston. "He and Zschau disagreed on a deep philosophical level," Johnston wrote. "He really sees South Africa as like Germany in the early '30, what he had seen as a young man, and [he believes] that the Reagan attitude is the same as that of the United States and the western allies in the early '30s — an attitude of tolerance."

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The big lie

With polls in mid-February showing Cranston with a 69 percent disapproval rating among California voters, political journalists in his state now regard Cranston as the politician most damaged by the Lincoln Savings and Loan scandal. Ostensibly, the case amounts to nothing more than political corruption, which saw five US senators — the fabled Keating Five — putting possibly undue pressure on federal bank regulators on behalf of Lincoln head Charles Keating in return for the more than \$1.3 million he'd contributed to their campaigns and political causes. But as *San Francisco Chronicle* reporter Mark Z. Barabak reminded readers in January, more than \$900,000 of those funds was solicited by Cranston. Although Cranston now claims to have had "an unchallenged and unblemished record of integrity during my more than 20 years in the Senate," he again is engaging in some dissembling. In 1983 the *New Republic* identified Cranston as controller of the largest secret slush fund in the Senate, which saw him transfer \$66,000 in campaign monies to a private account that went to cover travel and lodging for his wife as well as the services of speech-writers, a voice coach, and other personnel for his presidential run. Cranston refused to respond to the revelation other than to allow an aide to release only a select number of relevant documents.

Cranston is finding it more difficult to evade the charges raised in the Lincoln case. As his chances for re-election to the Senate in 1992 all but vanish, Cranston has fallen back on an old method of damage control and lashed out at the Keating Five's nemesis, former Federal Home Loan Bank Board chairman Edwin Gray, calling him an expert in "the Hitlerian technique of the Big Lie." Like a California Ceausescu, Alan Cranston intends to remain defiant to the end. Old habits die hard.

Buck Long is the pen name of a writer for a California newspaper. Mr. Cott is a free-lance writer in San Francisco. This is reprinted with permission from the April issue of *The American Spectator*.

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Cranston arranged credit with Lincoln

By George Williamson
San Francisco Chronicle

Sen. Alan Cranston, D-Calif., arranged a standby \$300,000 line of credit with Charles Keating's scandal-plagued Lincoln Savings & Loan during the crucial home stretch of the senator's 1986 reelection campaign.

No funds were drawn on the credit line, but it served as insurance for a campaign that he ended up winning by a single percentage point while going \$375,000 into debt



Cranston



Keating

from other sources.

The Lincoln credit line shows a deeper connection between Keating and Cranston than previously

known — Cranston and his aides have insisted that the senator's political connections to Keating were minimal at the time of the 1986 campaign.

It is also the first evidence that Irvine-based Lincoln, the bailout of which is expected to cost taxpayers up to \$2.5 billion, had direct dealings in Cranston's political affairs. Lincoln's parent company, American Continental Corp., was the source of previously disclosed financial backing.

Arrangements for the credit line,

which did not violate any law, were made late in the campaign when polls indicated that Cranston was slightly behind Republican Ed Zschau. Five months after his narrow victory, Cranston joined four other senators in intervening with regulators who were trying to close Lincoln. The Senate ethics committee is investigating what role Keating's large contributions to all five senators may have played in their actions.

It was disclosed early last summer. Please see CREDIT/22

FROM 1
mer that Keating contributed \$85,000 to an 11th-hour state Democratic Party get-out-the-vote drive that Cranston and others have credited with rescuing his campaign. That contribution was made near the time that the Lincoln credit line was set up. Cranston said two months ago that he presumed he or his campaign fund-raiser solicited that contribution.
Keating and his associates also gave \$39,000 directly to the Cranston campaign, and American Continental Corp. later contributed \$850,000 to voter registration groups affiliated with Cranston. Dary Stragow, Cranston's 1986 campaign manager, said although he had no recollection of what specific thrift issued the credit line, he does recall "a sense" that arrangements had been made for last-minute borrowed funds to be available "if we absolutely needed them."
Backup money was arranged out of "an abundance of caution, so you don't lose even more sleep," said Stragow, who added that he was not directly involved in raising money or arranging loans. "You don't want to be in a situation where your last bank account is drawn down and, hypothetically, your pollster tells you you need to spend \$50,000 right now or lose."
Cranston spokesman Murray Flanders said Wednesday that it was his understanding that the

credit line "was there if we needed it. But we didn't, and we let it drop."
Keating spokesman Brad Boland said Wednesday the credit line was "agreed on in principle" and could have been executed within a day if the Cranston campaign had made final application. It was set up in October 1986, the same month that the Cranston campaign got a \$348,250 loan from another now-insolvent California thrift, Deauville S&L, which has since changed its name to First Network.
S&L sources said a line of credit can be pledged as a backup to insure repayment of a follow-up loan from another thrift. But Cranston representatives and other sources in the trade said there was no connection between the Lincoln and Deauville arrangements.
Deauville was headed by Carl Rheuban, a heavy financial contributor to Cranston and other Democrats.
Rheuban's thrift charged the Cranston campaign \$1,750 in loan fees, about half what normally would be charged for a \$348,250 secured loan. The loan originally was due Jan. 6, 1987, but Cranston's Federal Election Commission filings indicate it was reassued on that date. The loan was paid off in nine subsequent installments, ending with a \$25,000 payment on June 18.

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Opened Lincoln S&L Line of Credit, Cranston Admits

By SARA FRITZ
TIMES STAFF WRITER

Sen. Alan Cranston (D-Calif.), currently under investigation for his dealings with financier Charles H. Keating Jr., acknowledged Thursday that he opened a \$300,000 line of credit from Keating's Lincoln Savings & Loan shortly before his reelection in November, 1986.

Murray Flander, spokesman for Cranston, said the line of credit was arranged by Cranston because he felt he was being outspent by his opponent, Republican Ed Zschau. But Flander added that Cranston never needed to use the credit.

Although Keating played no role in arranging the deal, Flander said Cranston went to Lincoln for the line of credit because he knew the thrift owner, who had raised \$39,000 for the Cranston campaign. He said Cranston "felt he could get quick action through Lincoln because of the Keating connection."

In addition to the 1986 campaign contributions and the line of credit, Keating also contributed \$85,000 solicited by Cranston for the California Democratic Party and later gave more than \$800,000 to voter registration drives supported by Cranston.

The Senate Ethics Committee and the Justice Department currently are investigating allegations that Cranston and four other senators, all of whom received dona-

tions from Keating, intervened improperly on Lincoln's behalf with federal regulators who were investigating the Irvine thrift.

Critics have charged that the influence of Cranston and the other senators helped to dissuade federal regulators from seizing Lincoln in 1987. When it was finally seized by the government for mismanagement in April, 1989, it became the biggest thrift failure in U.S. history, costing American taxpayers an estimated \$2.5 billion.

Although Flander dismissed it as a "non-story," the line of credit—first disclosed by the San Francisco Chronicle—demonstrates another close tie between Cranston and Keating, who has admitted that he tried to buy influence with politicians in Washington to assist him in his battle against federal savings and loan regulators.

Cranston was one of five senators who summoned Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, to the Capitol to discuss Keating's complaints against the regulators. Although the senators deny it, Gray insists they asked him to withdraw a regulator opposed by Keating.

Cranston has strongly denied any wrongdoing in the matter. He contends that he was involved in representing Lincoln in dealings with federal regulators because the thrift employs hundreds of people in Southern California.

The senator also has denied that

the campaign contributions and other money he solicited from Keating in any way influenced his decision to contact federal regulators on Lincoln's behalf. He cites a Supreme Court decision saying that members of Congress are expected to cajole federal officials on behalf of constituents.

According to Flander, Cranston pledged some of his vast real estate holdings to Lincoln as collateral for the \$300,000 line of credit he negotiated with Lincoln.

In Phoenix, Bradley Boland,

spokesman for Keating's company, American Continental Corp., acknowledged that the line of credit was agreed upon in principle in October, 1986, and could have been executed by Cranston at any time.

Under investigation along with Cranston are Sens. Donald W. Riegle Jr. (D-Mich.), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.) and John Glenn (D-Ohio). It is not known when the Senate Ethics Committee or the Justice Department inquiries will be completed.

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McCarthy defaults on

loan from failed S&L

\$300,000 political campaign loan secured with list of contributors

By George Williamson
San Francisco Chronicle

Lt. Gov. Leo McCarthy is in default on a political campaign loan from a now-insolvent California savings and loan whose losses are being absorbed by taxpayers.

He has missed the deadline to repay the last \$125,000 of a \$300,000 note he took out in 1988 and secured with his campaign committee's list of 27,000 potential contributors.

Campaign officials acknowledged Monday that the list could not be sold for anything approaching the value of the original loan — or even the remaining balance — but they said the lieutenant governor had personally guaranteed the note.

McCarthy said he had every intention of paying the balance on the loan, even though he must also raise money for his current reelection bid in November.

But the situation has raised new questions about the propriety of thrifts using federally insured deposits for loans to campaign committees that often go into limbo or simply dissolve after failed campaigns.

"A mailing list that had a very limited group of people who would ever consider purchasing it was extraordinarily dubious security

for a loan from an S&L, and something that could expose the S&L to serious losses," said Bill Black, chief counsel for the San Francisco district of the federal Office of Thrift Supervision.

The original \$300,000 loan was made to McCarthy's unsuccessful 1988 campaign to unseat Sen. Pete Wilson by First Network, a Los Angeles thrift headed by Carl Rheuban, a heavy contributor to various politicians. Rheuban gave \$1,000 to the Wilson campaign in 1987.

First Network is now in federal receivership, and its failure is expected to cost the government \$100 million.

The federal government's Resolution Trust Corp., which is now running the thrift, could file a lawsuit demanding that McCarthy's personal assets be sold to pay the loan, but foreclosure could be made only against the campaign contributors list.

A McCarthy campaign spokesman said the government, if it forecloses, could rent the mailing lists to other organizations for about \$1,900 each.

Final payment on the loan was due last Friday, but McCarthy made a payment of only about \$37,500, which left him owing \$125,000.

In a statement released though

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Lt. Gov. Leo McCarthy
Says he will repay balance

his campaign manager, Roy Behr, McCarthy said a request has been made for a second extension on the loan. "We won't let them write off that loan. I insist on paying it," he said.

Behr emphasized that along with the direct security of the contributor lists, the loan contract also included a personal guarantee from McCarthy.

He said McCarthy has ample assets to cover the loan, including his house in San Francisco, and signed the guarantee "with full knowledge" that he would be personally liable for repayment.

Behr acknowledged, however, that the contributors list alone was not adequate security — "that's why the bank insisted on a personal guarantee from Leo McCarthy."

He said all interest payments, totaling about \$50,000, have been made on the loan, "so it's been a profitable loan for the shareholders."

Officials in charge of First Network would not comment Monday on its plans to collect the balance of the loan or say whether an extension is being granted.

The loan came to light after The Chronicle disclosed last week that the same S&L lent \$350,000 to Sen. Alan Cranston's 1986 re-election campaign. Cranston paid off that debt in 1987 after his narrow election victory.

California Savings and Loan Commissioner Bill Davis, upon learning of the Cranston loans last week, expressed concern that thrifts made loans to political campaigns. In his 28 years in the S&L business, he said, "I've never run across it before."

Both Cranston and McCarthy reported the loans as secured in their filings with the Federal Election Commission. Cranston's listed himself as the guarantor of the loan, and his spokesman has said the senator's real estate holdings were used as security.

But McCarthy listed his old 1988 campaign committee, McCarthy for U.S. Senator, as the guarantor.

Behr said Monday that, contrary to the filing, McCarthy is the guarantor named on the loan contract. He said a campaign lawyer advised that it was not necessary to list McCarthy as the guarantor on the FEC filing.

Earlier in his senatorial campaign, McCarthy obtained a \$200,000 loan from Sovran Bank of Washington, D.C. His FEC filings list no guarantor on that loan, which also was reported as secured. The Sovran loan was paid off by its Aug. 31, 1988, deadline.

The payment McCarthy made to First Network on Friday was his first on the loan's principal this year. The loan was made on Oct. 27, 1988, with an original due date of April 27, 1989.

McCarthy obtained a year's extension that ran to 5 p.m. last Friday. He had paid \$132,500 by December 31 of last year.

First Network owner Rheuban and his wife contributed \$4,000 to Cranston's 1986 campaign, \$50,000 to a voter registration program founded by Cranston's son, Kim — who is currently chief of staff in McCarthy's office — and various sums to numerous other politicians, mostly Democrats.

But he is not listed as a contributor to McCarthy's senatorial campaign. FEC records show he made a \$1,000 campaign contribution in May 1987 to Republican Sen. Wilson who beat McCarthy the following year.

Cranston Raises \$105,510 for Defense in Keating Inquiry

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LOS ANGELES TIMES

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ORANGE COUNTY ED.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.), whose fund-raising and lobbying activities are under investigation by the Senate Ethics Committee, has begun soliciting contributions of as much as \$10,000 from political supporters for a legal defense fund.

Cranston raised \$105,510 for the newly created defense fund between Jan. 1 and March 31, according to documents filed recently with the secretary of the Senate. His aides said that the senator personally solicited the contributions.

Most donors to Cranston's legal defense fund—such as fashion designer Liz Claiborne and her husband, Arthur Ortenberg—previously had contributed the maximum amount permitted under law to the senator's 1992 reelection campaign committee.

The most generous of these contributors was the Sheetmetal Workers Union political action committee.

Since December, the union committee has given \$10,000 to Cranston's 1992 reelection campaign, \$10,000 to the legal defense fund and \$10,000 to Cranston's personal PAC, the Committee for a Democratic Consensus. In each case, \$10,000 was the maximum gift permitted under law.

Sheetmetal Workers officials declined to comment on the contributions. But union sources said that the \$30,000 represents a decision on the part of Edward J. Carlough, president of the 108,000-member union, to support the liberal Democratic senator as much as possible at a critical point in his career in return for Cranston's past backing of labor causes.

Cranston has been invited by Carlough to be a speaker at the Sheetmetal Workers' annual convention in Las Vegas in September.

The Ethics Committee is investigating allegations that Cranston and four other senators intervened improperly with federal regulators on behalf of a big contributor, Charles H. Keating Jr., owner of Lincoln

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Savings & Loan.

The case involves contributions solicited by Cranston from Keating—\$39,000 for his 1986 reelection campaign, \$85,000 for the California Democratic Party and \$850,000 for voter registration groups supported by the senator.

Although Cranston reported the creation of his legal defense fund to the Senate secretary on Jan. 8, he did not announce it publicly. It was first reported Thursday in Roll Call, a newspaper specializing in congressional news.

Under Senate rules, a senator under investigation may pay his legal expenses from personal funds, from his campaign coffers or from a legal defense fund. Individual donations may not exceed \$10,000 to such defense funds.

Cranston apparently is the only senator among the "Keating Five" who has created a legal defense fund. The other senators under investigation are John H. Glenn Jr. (D-Ohio), Dennis DeConcini (D-Ariz.), John

McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.).

According to Senate records, Cranston spent \$98,022 of the legal defense funds during the first three months of the year. He reported that \$93,000 went to the law firm of William W. Taylor III, who is representing him before the Ethics Committee. The remainder went to two other law firms, one of which received \$447 for administering the new fund.

Cranston's sister, Eleanor C. Cameron, and his brother-in-law, Donald Churchill Cameron, both of whom live in Los Altos Hills, Calif., each contributed \$10,000 to the legal defense fund. In a telephone interview, Eleanor Cameron said that she gave the money because "I feel that he really is suffering a great deal more than is proper in this case."

Claiborne and her husband, who already had contributed \$2,000 each to Cranston's reelection campaign, combined to contribute \$10,000 to the legal

Please see CRANSTON. A39

recreation fund.
Likewise, Nathan Shapiro, whose family controls the Chicago insurance firm of Baldwin & Lyons, gave \$10,000 for Cranston's defense. Last year, Shapiro hosted a fund-raising dinner for Cranston and his family members contributed thousands of dollars to the senator's 1992 reelection effort.
Robert B. Egelston of Los Angeles contributed \$5,000 to the legal defense fund; Aris and Carolyn S. Anagnos, also of Los Angeles, gave \$2,500; Alejandro and Lyda Zaffaroni of Atherton gave \$2,000, and Bernard and Audrey Rapoport of Waco, Tex., gave \$5,000. All of these donors also had contributed \$2,000 each to Cranston's reelection drive.
The American Family Political Action Committee gave \$5,000 to Cranston's reelection campaign and another \$5,000 to his legal defense fund. American Family Corp. is based in Columbus, Ga., and its principal subsidiary is a health care insurance plan. Cranston also received \$4,000 from the founder of the firm, John B. Amos, and his wife, Elena.
Other contributors to Cranston's legal defense fund include former Commerce Secretary and Chicago developer Philip Klutznick, \$2,000; San Francisco developer Paul Sack, \$5,000, and Sack's firm, R & S Associates, \$5,000.
Cranston kicked in \$10 himself.

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Metzenbaum and Keating

Now that the Savings and Loan crisis has reached the political boiling point with the American people, Members of Congress are desperately trying to shift the blame away from themselves and onto someone else. Often the same Members who are screaming for the Bush administration to "jail the S&L crooks" were at the center of the disastrous policies of the past decade.

The latest pass-the-buck exercise begins today when Ohio Senator Howard Metzenbaum convenes a hearing on the 1988 purchase of some Texas S&Ls by insurance executive James M. Fail. Mr. Fail and Robert Thompson, a lobbyist he retained, are accused of receiving sweetheart treatment from former thrift regulator Danny Wall. "It's the most abominable rip-off of the American taxpayer that I've ever experienced," thunders Mr. Metzenbaum. Last week, he issued subpoenas directing Messrs. Thompson and Fail to appear today. Mr. Thompson points out the Senator's subcommittee on antitrust policy has zero jurisdiction over S&Ls. He may contest the subpoena in court and not appear.

There are legitimate questions raised by the Fail deal, but we suspect they aren't the ones Senator Metzenbaum wants answered. There are, however, real questions about the apparently endless spectacle of sanctimonious Members of this Congress handing down judgments of other people's behavior while expecting no criticism of their own.

In probing Mr. Fail, for instance, Senator Metzenbaum can bring to bear his own knowledge of how to make big money without investing anything. In 1983, he collected a \$250,000 "finder's fee" for making two phone calls to find a buyer for a Washington hotel. The seller was a contributor to the Senator's campaigns. After he was accused of using his office to reap a windfall profit, he returned the money. At the time, he expressed outrage at calls he be investigated by the Ethics Committee.

Moreover, Charles Keating, of

Keating Five fame, told a meeting of Journal editors recently that Mr. Metzenbaum came to his Arizona office to ask for a political contribution. "He had been told by Senator Cranston that I was a soft touch for money," Mr. Keating recalls. Senator Alan Cranston, one of the Keating Five now under investigation by the Senate Ethics Committee, was given nearly \$1 million by Mr. Keating for voter-registration programs. Mr. Metzenbaum was interested in setting up similar programs in Ohio before his 1988 re-election race. Employees of Senator Cranston's groups have since revealed that they were routinely pressured to register only Democrats.

Mr. Keating said, "I told Metzenbaum we had nothing in common, but he kept calling me asking for money." Mr. Keating finally told Mr. Metzenbaum he should ask for money from Senator Cranston's registration programs, and their talks ended. Mr. Metzenbaum's press secretary says the Senator has "no recollection" of meeting Mr. Keating, though she said "it's possible."

The tactics employed by Senator Metzenbaum's committee gumshoes also deserve attention. The Washington Post reports that CNN reporter Brooks Jackson was told by Senator Metzenbaum's staff that they had made an exclusive deal to share confidential investigative data with the New York Times in exchange for an agreement that the story would be held until the day before a hearing. Brian McTigue, the Metzenbaum staffer who gave the data to the Times, was fired last year from Rep. John Dingell's Energy and Commerce Committee for illegally taping a conversation with a witness.

We'll take Senator Metzenbaum's camera-mugging hearings more seriously when he matches his zealous pursuit of S&L "rip-offs" with his own hard-hitting probe into Congress's financial relationships with Charles Keating and other benefactors of Capitol Hill.

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Feinstein reveals letters Wilson sent regulators on behalf of some S&Ls

By Larry Peterson
The Orange County Register

US Sen. Pete Wilson wrote letters to federal regulators on behalf of at least 10 savings and loans, according to correspondence released Friday by his rival for governor.

"There is no evidence that I have intervened on behalf of anyone, because I haven't," Wilson had said Thursday in an angry response to a new 30-second television ad prepared by Democrat Dianne Feinstein.

The ad implies that Wilson voted and acted to boost the troubled thrift industry while becoming its top national recipient of campaign contributions.

On Friday, Feinstein's campaign released Wilson's correspondence to regulators.

Four of the thrifts on whose behalf Wilson corresponded were taken over by federal regulators. Another was a \$1,000 contributor to his gubernatorial campaign.

"We're not saying Wilson did anything illegal," said Dee Dee Myers, Feinstein's campaign spokeswoman. "He agreed with them philosophically, he supported less regulation, and he was able to write regulators and get their attention."

Wilson strategist Otto Bos downplayed the letters' significance.

Feinstein's campaign spent the day trying to explain how and why her husband, financier Richard Blum, profited from a tax-paid federal bailout of an Oregon savings and loan.

The correspondence revealed that Wilson had written to expedite Federal Savings and Loan Insurance Corp. coverage for five thrift institutions, including a troubled one later seized by federal regulators.

He also wrote the Federal Home Loan Bank Board to oppose regulators' efforts to slow the approval of federal insurance of savings institutions newly chartered by the state after regulators questioned what they regarded as lax state supervision of thrifts.

To one Wilson letter, the board responded that he was "misinformed about the situation" and that "millions of dollars" were lost because of the "action or omissions" of Wilson's constituent, Mount Whitney Savings and Loan.

Meanwhile, Feinstein's husband acknowledged that he, his partners and clients put up about \$8 million to buy the debt-ridden Jackson County Federal Savings and Loan in Medford, Ore.

He said federal banking officials pumped cash and guarantees to cover loans that might be bad and that he received a \$325,000 consulting fee for putting the deal together. He said the terms were negotiated before he was involved.

Asked about a report by the San Jose Mercury-News that federal regulators paid \$23 million in cash and put up an additional \$35 million as a guarantee, Blum said, "those figures might be right."

Blum insisted that he ultimately

might lose money on the deal because the price of the savings and loan's stock has plummeted. But its annual report said it made a profit of \$594,000 in the first six months after the takeover.

Blum also insisted that the deal saved taxpayers money because it would have cost the government more to bail out depositors if the thrift had been allowed to collapse. The Mercury-News account quotes a federal regulator as sharing that view.

Wilson's campaign also cited campaign-finance reports showing that several executives of the bailed-out thrift contributed a total of \$4,650 to Feinstein's campaign. It also cited \$4,000 in contributions by two employees of Texas financier Robert Bass, with whom Blum was a minor participant in the takeover of a troubled savings and loan in Stockton.

Blum provided about half of the nearly \$6 million that Feinstein, the former mayor of San Francisco, spent to win the June 5 primary election.

Register staff writer Chris Knap contributed to this report.

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Correspondence sent on behalf of 10 institutions

Correspondence between Sen. Pete Wilson and the Federal Home Loan Bank Board indicates that he wrote federal regulators regarding 10 savings and loan institutions.

In some cases, he sought to help aspiring institutions that had been refused federal charters. In others, he inquired on behalf of insolvent institutions seized by the federal government. The letters were released Friday by gubernatorial candidate Dianne Feinstein's campaign.

Hacienda Federal Savings and Loan: Wilson wrote Federal Home Loan Bank Board Chairman Ed Gray in 1984, inquiring about the board's handling of the Oxnard institution. In a return letter, a bank board official noted that "violations of law and unsafe and unsound practices" at Hacienda had left it insolvent, causing the bank board to seize it Nov. 18, 1983.

San Marino Savings and Loan: Wilson wrote the Federal Home Loan Bank Board in April 1984 regarding the status of the troubled thrift, enclosing letters of complaint he had received from San Marino's chairman. A bank board official replied that the chairman's letter "contains factual assertions with which this agency strongly disagrees." The official noted that the thrift had been seized by the federal government in February of 1984 after "substantial dissipation of assets ... due to violations of law, rules, and regulations and unsafe and unsound practices."

Santa Barbara Savings: Wilson questioned the Office of Thrift Supervision about its regulatory efforts regarding the institution. In responding to Wilson on May 1, the office's deputy director noted that the institution was undercapitalized and had been placed under government conservatorship April 27.

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Regan defends deregulation policies

The New York Times

WASHINGTON — Donald T. Regan, an architect of the Reagan administration's deregulatory policies, told Congress on Monday that contrary to conventional wisdom, the savings and loan debacle resulted from too many restrictions on savings institutions, not too few.

The basic problem, he said, was that these institutions were limited to investments in their regions, which made them "extremely vulnerable to regional economic troubles."

Regan, who served as President Reagan's first Treasury secretary and then became White House chief of staff, told the House Banking Committee, "Better regulation and supervision by thrift regulators would not necessarily have prevented what ultimately hap-

pened."

Regan also said that in late 1986 Sen. Dennis DeConcini, D-Ariz., had lobbied him for a government appointment for Lee Henkel Jr. of Georgia, a business associate of Charles H. Keating Jr., the Phoenix financier who built and lost the Lincoln Savings and Loan Association.

Regan's defense of deregulation drew skepticism from some committee members. Rep. Henry B. Gonzalez, Texas Democrat and chairman of the banking committee, told Regan, "It is obvious that the Reagan administration put much faith in a deregulatory policy which handed the savings and loan industry new powers and a greater array of permissible investments for insured deposits, policies which the high-fliers interpreted as a green light for risky ventures."

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Counsel may have clearer proof Keating bought influence

By Larry Margasak
The Associated Press

WASHINGTON — A special counsel's report establishes crucial links between the timing of contributions by Charles H. Keating Jr. to three senators and specific actions the lawmakers took to help the former savings and loan executive, congressional sources said Monday.

The links were instrumental in the counsel's recommendation that a Senate Ethics Committee investigation proceed against Democratic Sens. Alan Cranston of Califor-

nia, Dennis DeConcini of Arizona and Donald W. Riegle Jr. of Michigan, the sources said.

However, Special Counsel Robert S. Bennett recommended that the committee dismiss Sens. John McCain, R-Ariz. and John Glenn, D-Ohio, from the probe, according to the sources.

The committee announced Monday that it has scheduled individual meetings with the senators during the next two weeks. Glenn and McCain are to appear before the six-member committee this week, the sources said.

"Under our existing practices,

the committee must give each senator under investigation the opportunity to be heard by the committee in executive session before any decisions are made," a written statement said. "Following these meetings with the senators, the committee will meet to decide how it will proceed."

The panel said Bennett's report totals 350 pages, plus thousands more pages of exhibits, including transcripts of interviews with senators and other witnesses.

The five senators received \$1.3 million from Keating and his associates for their campaigns and

causes, and intervened with US banking regulators on behalf of the former head of Irvine-based Lincoln.

The federal government seized Keating's S&L in April 1989 and it could cost taxpayers more than \$2 billion to cover the losses.

The senators have said they intervened with regulators — especially in two key meetings in April 1987 — because Keating persuaded them that his thrift was being treated unfairly. All have denied that their intervention was driven by the donations.

Public documents and state-

ments show some links between the contributions and contacts with regulators by Riegle, Cranston and DeConcini.

However, Bennett reportedly has identified much more precise connections involving the timing, while also focusing on the entire pattern of the senators' conduct.

The committee is still in the preliminary phase of its investigation and must decide whether to accept Bennett's report.

If the panel continues the probe against any of the senators, it could proceed to an interim phase called an "initial review".

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Senator sees no new
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Senator sees no new S&L allegations

By Larry Margasak
The Associated Press

WASHINGTON — Senate Ethics Committee members, weighing a recommendation that Sen. John McCain be dropped from a savings and loan inquiry, brought up no new allegations last week when the panel met privately with the sole Republican being investigated.

A congressional source familiar with the testimony said the questions covered the same facts that led a special counsel to conclude that the committee should dismiss McCain, whose case is the most significant among five senators under investigation.

Dismissal of McCain would leave only Democrats in the inquiry and would seem to give the GOP a campaign issue to counter

allegations of wrongdoing by Neil Bush, the president's son, when he served on the board of a Denver savings and loan association.

McCain is pressing hard to have the committee drop him from the investigation, as is Sen. John Glenn, D-Ohio, who also testified in closed session last week. Congressional sources said the committee's special counsel, Robert S. Bennett, proposed that the investigation end against both senators, a recommendation that could be acted upon late next week.

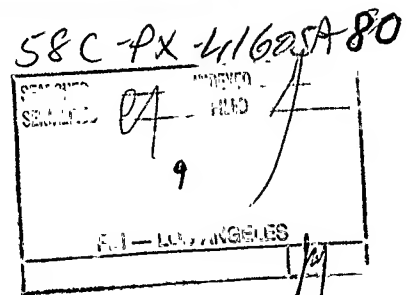
McCain and the four other senators are being investigated because of the assistance they gave savings and loan figure Charles H. Keating Jr., who contributed some \$1.3 million to their cam-

paigns and causes.

The five intervened with regulators when Keating's Lincoln Savings and Loan was heading toward failure. The federal government seized the institution in April 1989 and might have to spend \$2 billion to cover its losses.

Bennett recommended that the investigation be expanded against three other senators: Democrats Alan Cranston of California, Dennis DeConcini of Arizona and Donald W. Riegle Jr. of Michigan. The committee is meeting privately with each of the senators before deciding whether to follow Bennett's recommendations.

McCain received \$112,000 from Keating and his associates for his campaigns.



Cranston Called to Discuss S&L Case

■ **Thriffs:** The senator is summoned to a closed session to discuss his ties with Charles Keating Jr. Charges against two others may be dropped.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.), one of five senators accused of improperly intervening with regulators on behalf of Lincoln Savings & Loan owner Charles H. Keating Jr., was summoned before the Senate Ethics Committee on Tuesday to review the case against him amid indications that the panel is on the verge of dropping charges against two of his colleagues.

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owners.

Common Cause, the citizens lobbying group, has charged that Keating's influence delayed FHLBB action against fraud and mismanagement at Lincoln. The Irvine-based thrift eventually was seized by the government in April, 1989, and Keating since has been charged with fraud in the sale of junk bonds to Lincoln customers, most of them elderly Californians.

Like Riegle and DeConcini, Cranston solicited large contributions for his campaign and other causes from Keating while acting on behalf of the thrift owner. These contributions included \$35,000 for his 1986 Senate campaign, \$85,000 for the California Democratic Party and \$850,000 for three voter registration groups identified with Cranston.

Committee investigators found that Cranston received a memo from his campaign aide, Joy Jacobson, in early January, 1987, telling him that Keating had contributed to his campaign and the state Democratic Party and advising him that Keating "rightfully expects some kind of resolution" to his

The investigation of Cranston will continue, sources said, even if the panel soon votes—as expected—to clear Sens. John McCain (R-Ariz.) and John Glenn (D-Ohio) for lack of evidence.

Neither Cranston nor the committee members would disclose what was discussed in their private meeting, but sources said the session was designed to review the evidence the committee has gathered on the California senator.

Clearing McCain and Glenn would follow the recommendation of special counsel Robert S. Bennett, who told the Ethics Committee in a 350-page report last month that the evidence he had found would justify continuing the investigation only against Cranston and Sens. Donald W. Riegle Jr. (D-Mich.) and Dennis DeConcini (D-Ariz.).

According to these sources, Bennett's investigation found reason to suspect that the actions of Cranston, Riegle and DeConcini were directly linked to the campaign contributions they had received from Keating.

The committee voted earlier this year to authorize Bennett to conduct a preliminary inquiry into the charges against the senators, who have become known as the "Keating Five." They were accused of being influenced by Keating's campaign contributions to intervene in 1987 with Federal Home Loan Bank Board regulators who were investigating Lincoln and its

complaints against the FHLBB.

The following April, Cranston attended two meetings in which he and the other four senators questioned bank board officials about Keating's complaints against the agency. These meetings are at the heart of the charges against the five senators.

In his own defense, Cranston has said that he only urged the regulators to bring their investigation of Keating to a close as quickly as possible. He has insisted that he never lobbied bank board officials to drop their investigation, as Keating was seeking.

Cranston met nine times with Keating between 1984 and 1988, according to Keating's travel logs and appointment books published this week in the National Mortgage News.

These included a trip to Keating's headquarters in Phoenix in February, 1988. Other meetings between Cranston and Keating occurred on Dec. 17, 1984; July 16, 1986; Aug. 12, 1986; Jan. 28, 1987; March 24, 1987, shortly before the April sessions with regulators; Sept. 4, 1987; Jan. 28, 1988, and at a Dec. 14, 1988, dinner at the Bel-Air

Hotel in Los Angeles.

Cranston previously has acknowledged meeting with Keating on several occasions but has refused to say when those meetings occurred or what was discussed.

Members of the Senate Ethics Committee have been deeply divided over how to proceed with the investigation since receiving Bennett's report, according to sources. Sen. Howell Heflin (D-Ala.), who chairs the panel, has been accused by some members of delaying action on Bennett's recommendation because some Senate Democrats do not want to drop charges against McCain, the sole Republican among the Keating Five.

Heflin, who is well-known in the Senate for his slow, deliberate manner, has indicated that the committee will vote on Bennett's recommendation later this week after interviewing all five senators in separate closed sessions.

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HUGE LOBBYING EFFORT:

Keating Pursued Thirty For Help with Lincoln

By STEPHEN PIZZO and PAUL MUOLO

©1990 National Mortgage News

WASHINGTON. — During a five-year period, Lincoln Savings and Loan Association owner Charles Keating Jr. scheduled 85 meetings with 30 elected officials and regulators in an apparent effort to shield his financial empire from regulatory scrutiny.

According to Mr. Keating's flight logs and appointments book, the indicted financier between 1984 and 1989 noted meetings on several occasions with members of the "Keating Five" (Sens. John Glenn, D., Ohio; Dennis DeConcini, D., Ariz.; John McCain, R., Ariz.; Donald Riegle, D., Mich.; and Alan Cranston, D., Calif.), as well as Sen. Paula Hawkins, R., Fla., Rep. Douglas Barnard, D., Ga., former Federal Home Loan Bank Board chairman M. Danny Wall, and former California Savings and Loan Commissioner Lawrence Taggart. (Excerpts, page 22)

Sen. Hawkins and Rep. Barnard, and members of the Keating Five all received sizeable campaign contributions from Mr. Keating, his employees and family.

The flight logs and agenda obtained by *National Mortgage News* show meetings also were scheduled with then-Vice President George Bush, White House chief of staff Donald Regan, and Sen. Terry Sanford, D., N.C. Mr. Keating's agendas — which include scheduled meetings and topics discussed — have been provided to the Senate Ethics Committee although the flight logs have not, sources told NMN.

Sources familiar with the agendas note that some of the meetings were on dates other than those listed but describe the agendas and logs as otherwise accurate.

The revelation of the scheduled meetings comes as the Senate Ethics Committee is considering dropping its

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Investigation of Sens. McCain and Glenn.

The "Keating Five" is being investigated to see whether they used their power as senators to do political favors for the indicted thrift owner. All have denied wrongdoing.

During the next two weeks the five are scheduled to meet with the Ethics Committee to discuss the findings of special counsel Robert Bennett.

Logs Show Heavy Lobbying

The agendas and flight logs show intensive lobbying efforts in a number of key areas including actions by Irvine, Calif.-based Lincoln and its parent company American Continental Corp., Phoenix to block the FHLBB's restrictive direct investment rule; to obtain the appointment to the Bank Board of Lee H. Henkel, Jr., a Georgia attorney who had received sizable loans from ACC and its affiliates; and possible litigation against regulators and actions that resulted in the Bank Board removing the FHLB of San Francisco as Lincoln's primary regulator.

For example, the records show that on Dec. 17, 1984 Mr. Keating had dinner with Sen. DeConcini.

Earlier that month then-Bank Board chairman Edwin J. Gray proposed a new rule limiting direct investments to 10% of assets for state-chartered as well as Federal thrifts.

The multi-billion dollar Lincoln, which was heavily involved in direct investments many of which later resulted in enormous losses, opposed the limitation.

Only days after his dinner with Mr. Keating, Sen. DeConcini attached an amendment to a Senate bill (S. 2851) which would have restricted the Bank Board's ability to curb direct investments.

Mr. Gray's regulation was formally adopted in March 1985, but was retroactive to Dec. 10, 1984.

During 1985 Mr. Keating petitioned the Bank Board for \$900 million in direct investment authority.

The records show that in 1985 he scheduled six meetings with Sen. McCain,

including a one-week stay at Mr. Keating's home in the Bahamas.

Meetings also were scheduled with Vice President Bush and Rep. Jack Kemp, R., N.Y., now Secretary of the Department of Housing and Urban Development.

The records also show that in August 1984 Sen. McCain and his wife Cindy flew on an ACC jet to Mr. Keating's Bahamas estate. Also on the same trip were Mr. Henkel and his wife Barbara.

Mr. Henkel became a member of the Bank Board in late 1986. He was appointed while the Congress was in recess.

According to agendas and flight logs, Mr. Keating constantly lobbied members of Congress to get Mr. Henkel appointed to the position.

Once in office Mr. Henkel introduced a regulation that would have protected Lincoln's direct investments.

He later resigned under pressure as his business ties to Mr. Keating were revealed.

According to the records, in September 1986 Mr. Keating met with Sens. Cranston, McCain, Riegle, and Rep. Barnard.

The reason for the meetings was cited as "Henkel/Benston," a reference to economics professor George Benston who Mr. Keating also was trying to get appointed as the "Democratic" member of the Bank Board.

In 1986, according to Federal Elections Commission records, Mr. Keating and his employees contributed thousands of dollars to the campaigns of Messrs. McCain, Riegle and Barnard.

Pushing for the Henkel nomination, Mr. Keating also lobbied other politicians and officials, scheduling 25 different meetings that year, the records show.

In 1986 Mr. Keating scheduled four meetings with Sen. Hawkins; two with undersecretary of the Treasury George Gould; two each with Sens. Cranston, DeConcini, Glenn and Rep. John Dingell, D., Mich.

In 1987 the pace of lobbying continued, as Mr. Keating scheduled 23 meetings with politicians, including three each with Sens.

Cranston, DeConcini, McCain and Riegle.

In was in April 1987 that two different meetings occurred between various members of the Keating Five and regulators concerning the Bank Board's supervision of Lincoln.

During the first meeting on April 2, former Bank Board chairman Gray said Sen. DeConcini offered him a "quid pro quo" whereby Lincoln would increase its home mortgage lending if Mr. Gray dropped his direct investment restrictions.

That year Mr. Keating also scheduled separate meetings with Rep. Frank Annunzio, D., Ill.; Rep. Barnard; Sen. Robert Dole, R., Kan.; Sen. Phil Gramm, R., Tex.; Rep. Chip Payson, R., Calif.; and others.

Over the years Rep. Annunzio, chairman of the House Banking Committee's subcommittee on financial institutions, has received \$3,000 from Keating interests; Rep. Barnard \$20,000; Sen. Gramm \$1,000; and Rep. Payson \$23,000, according to a report in *Roll Call*, a weekly newspaper for Capitol Hill.

Rep. Barnard last week said he would return the money.

Mr. Keating's lobbying efforts continued in 1988 as he scheduled 15 meetings with politicians and regulators.

Sen. Sanford, a member of the Senate Ethics and Banking Committees was scheduled to meet with Mr. Keating on Feb. 18, 1987. No reason was given.

However, a spokesman said the senator has no recollection of Mr. Keating and that the scheduled meeting was probably just one of hundreds of "courtesy calls" for a freshman senator.

"For one reason or another the meeting didn't happen probably because one or the other was too busy," the spokesman said.

According to Common Cause, a public interest group, Sen. Sanford received \$51,750 from S&L interests during the 1980s, although none of the money appears to have been given by Mr. Keating or any of his associates.

Little Response

Overall, the records show that from 1984 to 1988 Mr. Keating scheduled 11 personal meetings with Sen. Cranston; eight meetings with Sen. DeConcini; five with Sen. Glenn; 12 with Sen. McCain; and nine with Sen. Riegle.

Sen. Hawkins, who received \$14,000 in campaign contributions from Keating interests, met with Mr. Keating on at least five occasions in 1985 and 1986 records show.

Ms. Hawkins, who lost her re-election bid in 1986, chaired the Senate Banking Committee's subcommittee on consumer affairs.

According to the agendas, Mr. Keating met with Sen. Hawkins to discuss her endorsement of Mr. Henkel and "FHLB regulations and litigation."

The Senate, prior to last year's bailout bill, had to approve Bank Board nominees.

Anthony Thompson, executive assistant to Ms. Hawkins, said last week, "I do not think she will care to comment on the meetings" but forwarded an MNM request for an interview to the former Senator.

Spokespersons for all five Senators declined to discuss the scheduled meetings, saying that the Senate Ethics Committee has asked them to keep the matter confidential. However they did discuss the matter in general.

Scott Cellery, press secretary for Sen. McCain, said, "The Senator is confident the Ethics Committee will drop the investigation."

Mr. Cellery said Sen. McCain's belief is based on "evidence" that has been received by the Ethics Committee's special counsel Robert S. Bennett.

He said "Sen. McCain has violated no rules. When he met with Mr. Keating it was because Keating was a representative of a major company in his state."

Unlike other members of the Keating Five, Sen. McCain to date has refused to give back \$112,000 in contributions given by Keating interests.

A year ago the senator ordered a FEC probe of the donations but has yet to hear a response.

Sen. McCain's wife invested \$359,000 in a shopping center project with Mr. Keating.

According to Mr. Cellery, the partnership lost money.

Sen. Glenn, who received \$34,000 from Keating interests, also has refused to return the money.

Sen. Riegle, who returned \$76,000 in Keating-affiliated donations, declined comment on the flight logs, as did Sen. DeConcini's office.

Sen. DeConcini returned \$55,000 in donations from Keating interests.

Murray Flander, Sen. Cranston's press secretary said he has no knowledge concerning the contents of any Keating flight logs or agendas.

He said sarcastically, "Oh boy, you have a big story there. Why don't you go and do a six-column spread on it."

Last week the Washington Post reported that in a January 1987 confidential memo to Sen. Cranston, a fundraiser wrote that Mr. Keating was among campaign supporters who "rightfully expect" some resolution of pending requests for help from the Senator.

Overall Keating associates gave Sen. Cranston \$47,000 in campaign donations, and \$850,000 to voter registration groups tied to the Senator.

Sen. Cranston, who has declined to return any of the money received from the indicted Mr. Keating, has said publicly on several occasions that his actions on Mr. Keating's behalf were motivated by concern that a constituent was not being treated fairly.

Mr. Flander declined to comment on the memo written by Cranston fundraiser Joy Jacobson.

Excerpts From Keating's 'Political Diaries'

The material in *italics* has been added by NMN to place events in context.

1984:

Jan. 12 - Meeting with Dick Pratt.
(Feb. 22 - ACC acquires Lincoln) (May - FHLBB chairman Ed Gray announces plans to issue new regulation restricting thrift direct investment authority.)
June 6 - Dinner in LA with Larry Taggart, California Savings and Loan commissioner.
(Aug. 20 - FHLBB begins examination of Lincoln Savings.)
Aug. 26 - Cat Cay (Keating's Bahama retreat) with Sen. John McCain of Arizona, Cindy McCain, Barbara & Lee Henkel.
Sept. 26 - Keating dines in Washington with Sen. John McCain.
(Dec. 7 - California Commissioner Larry Taggart approves \$800 million in direct investment authority for Lincoln Savings. Gray has let it be known that his new direct investment rule would be retroactive to Dec. 10, 1984.)
Dec. 17 - Keating travels to Washington to meet with: Sen. Alan Cranston of California - Sen. John Glenn of Ohio - Sen. Mack Mattingly of Georgia - Sen. Paul Laxalt of Nevada - M. Danny Wall (then chief of staff, Senate Banking) - Alan Greenspan.
Dec. 17 - Dinner with Sen. Dennis DeConcini.
(Sen. DeConcini attaches an amendment to a Senate bill stating that "no regulation of the FHLBB shall impose greater limits on direct investments...until 12/31/86")
(Dec. 31 - Larry Taggart resigns as California S&L Commissioner and joins TCS Financial in San Diego.)

1985:

Jan. 2 - Cindy McCain flies to LA on ACC jet.
(Jan. 18 - Lincoln invests \$2.9 million in TCS Financial stock.)
(Jan. - FHLBB passes new direct investment regulation - pending public comment for 90 days.)
Jan. 28 - CHK meets in Washington with: Sen. John McCain - Rep. Jack Kemp of New York.
Jan. 29 - CHK meets with John McCain in Washington.
(Feb. 1 - Lincoln applies to FHLB for \$900 million direct investment authority. Request denied.)
Feb. 13 - Meeting with Larry Taggart in Phoenix.
(Feb. 27 - Washington hearing begins on FHLBB direct investment rule - Dr. George Benston & Alan Greenspan to testify.)
Feb. 27 - Keating flies to DC and meets Greenspan.
April 2 - Keating flies from NY to DC for dinner with Sen. & Mrs. DeConcini.
April 3 - Keating meets at 10:30 AM with John McCain in McCain's office in DC.
April 4 - Sen. McCain flies back to Phoenix on ACC's plane with Keating.
(May 17 - FHLBB denies Lincoln's appeal on \$900 million direct investment authority request.)
May 28 - Keating lunches with Alan Greenspan in NY.
Aug. 16 - Sen. John McCain & his wife take a flight to the Grand Canyon on ACC plane.
Aug. 22 - McCain takes trip to Cat Cay via helicopter with Keating & Kletly and C-119.
Aug. 29 - McCain returns on Lincoln's BAC jet to Phoenix.
Sept. 15 - John & Cindy McCain have dinner at Keating's house in Phoenix.
Sept. 17 - Keating meets with FHLB of SF president James M. Crona and California Savings & Loan Commissioner William Crawford.
Sept. 18 - Dinner to review with Larry Taggart Lincoln's desire to purchase assets of failing S&Ls.
Sept. 23 - NY city - meeting with George Benston "to plan strategy through the balance of 1985 re: Lincoln Savings."
Oct. 30 - Phone conference with Bob Hubbard "re: Ed Gray."
Oct. 31 - Meeting in Phoenix with Sen. John McCain and Larry Taggart.
(Nov. - Keating sends job offer to Ed Gray while Gray is testifying before Congress on direct investment rule. Offer reportedly is \$300,000 a year for five years. Gray turns it down.)
(Dec. 3 - FHLB notifies Lincoln that they are in violation of the growth limitation regulation.)
Dec. 13 - Charles Keating and his brother, former Ohio Rep. William Keating, meet with Vice President George Bush.

1986:

Jan. 23 - Keating flies to California for a campaign luncheon for Calif. Gov. Deukmejian.
Feb. 6 - Phone conversation with Lee Henkel & Bill Keating.
Feb. 18 - Washington - Meeting with Larry White re: Phoenixian, Memorex, Playtex and other deals.
Mar. 26 - Washington - 9:30 am meeting with Under Secretary of Treasury George Gould re: regulatory issues regarding FHLBB investment powers. Also discussed legislative issues regarding FHLBB.
- 11:00 am meeting at the Rayburn House Office building, with Rep. John Dingell re: regulatory issues regarding FHLBB and investment powers.
- 12:00 noon - Lunch with Sen. John Glenn. Discussed regulatory issues regarding FHLBB and investment powers.
- 1:45 pm - Meeting with Jack Kemp regarding regulatory issues and investment powers.
- 2:30 pm - Meeting with Sen. Dennis DeConcini. Re: regulatory issues and investment powers.
- 3:30 pm - Meeting with Danny Wall, Chief of Staff, Senate Committee on Banking. Re: regulatory issues and investment powers.
- 5:30 pm - Meeting with John Rousselot of NCSI. Re: regulatory issues and investment powers.
(April - Sen. John McCain's wife Cindy invests \$360,000 in a Keating partnership in Phoenix. Rep. Doug Barnard comes to Arizona to attend an ACC political fundraiser.)
June 24 - New FHLB audit of Lincoln begins.
July 3 - Audit exit conference.
July 7 - Keating meets in his office with Sen. Paula Hawkins.
- 12:00 - Lunch with Sen. Dennis DeConcini at ACC headquarters.
July 9 - Washington - 4 pm - Keating meets with George Gould again re: FHLBB regulations and litigation.
- 4:30 pm - Keating meets with Sen. John Glenn, re: FHLBB regulations and litigation.
- 7:30 pm - Dinner meeting in Washington with ACC officials to "review board candidacies, timing and approval for individual nominees, effect on proposed current legislation, status of the FHLBB nominations."
July 15 - 9:00 am - Virginia - Meeting with Keating and Rousselot, re: FHLBB proposed regulations, and ... FHLB board appointments.
- 12:00 noon, White House Connection, 17th & G St - Luncheon with ACC officials re: Benston nomination and status of Lincoln examination.
- 4:00 pm - Meeting with Rep. John Dingell re: FHLBB proposed regulations and impact on current FHLB audits.
July 16 - 9:00 am - Meeting with Sen. Paula Hawkins re: FHLBB litigation and regulations; Hawkins' endorsement of Lee Henkel for FHLB.
- 11:00 am - Meeting with Sen. Don Riegle re: FHLBB regs. and Lee Henkel nomination to FHLB Board.
- 11:30 am - Meeting with Sen. Alan Cranston re: FHLB regs and Lee Henkel nomination.
- 12:00 - Fly to New York
- 3:00 pm - Meetings with Gershon Kekst public relations re: public relations, recent new articles on Edwin Gray head of FHLB.
(Ed Gray told NMN that he believes that ACC was encouraging negative news stories about him during this period.)
July 18 - "Telephone conference with Norm Brownstein re: Grigsby, Hovde & Gray."
(Brownstein is a Denver attorney who represented ACC as well as a number of figures in the Silverado Savings collapse.)
July 20 - Dinner at a private home with Rep. Doug Barnard.
July 24 - Dinner with Lee Henkel.
July 25 - Meeting at ACC with Lee Henkel "re: Henkel's possible appointment to FHLBB, problems with FHLBB and ACC's savings and loan in California."
July 29 - 9:30 am - Meeting with Sen. Paula Hawkins at Hart Senate Office building: "re: new regulations for FHLB."
July 29 - 1:30 pm - Washington to Atlanta for a meeting with Lee Henkel.
Aug. 11 - 9:00 am - Washington meeting with Danny Wall "re: Democrats to win; chairmanship - Benston."
- 3:30 - Meeting with Rep. Doug Barnard.
- 7:00 pm - Private tour of White House for Keating, Hubbard, and Grogan.
Aug. 12 - 7:30 - Breakfast meeting with FHLB Board member Don Hovde "re: recess appointment."

- 10 am - Meeting with Sen. Paula Hawkins.
- 12 noon - Lunch with Sen. John McCain.
- 3 pm - Meeting with Rep. Chip Pashayan.
Aug. 14 - Telephone conference with Sen. Hawkins "re: appointments of Henkel and Benston and discussed the situation with Gray, Garn and Danny Wall."
Aug. 19 - Meeting with Lee Henkel.
Sept. 10 - 9 am - Meeting with Marg Waxman re: Henkel/Benston.
- 11 am - Meeting with Doug Barnard, re: Henkel/Benston.
- 11:30 - Meeting with Alan Cranston, re: Henkel/Benston.
- 12:00 - Lunch with Sen. John McCain, re: Henkel/Benston.
- 2:00 - Meeting with Sen. Riegle.
- 3:30 - Meeting with Don Regan re: FHLB matters pertaining to Lincoln examinations and nominations to the board (Henkel/Benston).
Sept. 10 - Washington to LA for Calif. Gov. Deukmejian campaign dinner.
Sept. 18 - ACC flight log for Sabre - Phoenix to LA to meet with Samuelian "re: ACC \$100 million subordinated debenture."
Oct. 13 - Telephone conference with Lee Henkel re: FHLB.
Oct. 16 - Telephone conference with Mike Miller re: Investments.
Oct. 17 - Telephone conference with Lee Henkel, re: FHLB.
Nov. 4 - To Los Angeles, "re: elections, Governor, Sen...."
(Nov. - Lee Henkel appointed to the FHLB Board.)
(Dec. 19 - FHLB examiners submit evidence of "file stuffing" at Lincoln in a 186-page report entitled "Significant Supervisory Concerns.")

1987:

(Jan. 2 - Cranston campaign aide Jay Jacobson sent a memo to Cranston indicating that Keating had contributed \$40,000 to his campaign and another \$85,000 to the California Democratic Party and that would "rightfully expect some kind of resolution" to matters he had pending before the Bank Board.)
Jan. 26 - 8:30 am - Washington - Meeting with White House economic advisor Dr. Beryl Sprinkel "re: FHLB and Lincoln Savings' relationship with Ed Gray. Chairman Gray is stepping down in June 1987."
- 10 am - Meeting with Rep. Doug Barnard "re: FHLB and Lincoln Savings' relationship with Ed Gray; Ed Gray stepping down in June."
Jan. 27 - Meeting with Sen. Phil Gramm of Texas at Russell Senate Building.
- 9:00 pm - Attend State of the Union Address.
Jan. 28 - 8:00 am - Breakfast with Sen. John McCain in Senate Dining room.
- 9:45 - Democratic Whip Office in Capitol - Meeting with Sen. Alan Cranston.
- 11:00 - Hart Building, Meeting with Sen. John Glenn.
- 12:00 - Meeting with Rep. Chip Pashayan and Rep. Stan Parris of Virginia.
- 1:00 - Meeting with John Rousselot.
- 2 pm - Meeting with Sen. Dennis DeConcini.
- 3 pm - Meeting with Sen. Don Riegle.
Jan. 29 - Meeting at her home with Sen. Paula Hawkins "re: position opening in June of 1987 for chairman of FHLBB to replace present chairman Ed Gray."
Feb. 18 - 12:15 pm - Meeting with Sen. John McCain.
- 2 pm - Washington - meeting with Sen. Terry Sanford of North Carolina.
- 4:30 pm - Meeting with Speaker of the House Jim Wright of Texas in Capitol Room 204
- 5:30 - Meeting with Curtis Prins (aide to Rep. Frank Annunzio).
March 9 - At ACC headquarters - Sen. Don Riegle speaks to key ACC executives.
March 24 - 9:30 am - Washington, Hart Building - Meeting with Sen. DeConcini "re: FHLBB regulations and possible litigation."
- 10:30 - Meeting with Alan Cranston - same subject.
- 1:30 - Meeting with Sen. John McCain - same subject.
- 2:15 - Meeting with Sen. Bob Dole of Kansas - same subject.
(April 2 - Four senators, Cranston, McCain, Glenn and DeConcini meet with Ed Gray in DeConcini's office. DeConcini has a memo from ACC entitled, "What ACC wants from Gray in return for concessions." DeConcini says that if Gray will back off on his direct investment limits, Lincoln would make more home loans.)
(April 9 - Five senators, Cranston, DeConcini, Glenn, McCain and Riegle, meet for two hours with federal regulators from the FHLB in San Francisco grilling them about their aggressive and extended examination of Lincoln's books.)
(May - FHLB in San Francisco recommends a receivership.)
(June - Reporter Michael Bernstein publishes excerpts from FHLB examination of Lincoln in *Regardless Magazine*. The article enrages Keating who blames the San Francisco regulators.)
(June 30 - Gray leaves the board, Wall assumes chairmanship.)
Sept. 24 - 7 am - Washington, FHLB - Meeting with Danny Wall and Rosemary Stewart "re: direct investments and R41C: Also discussed Bill Black; Disclosure; Five Senators; ..."
- 8:30 am - Meeting with Rep. John Rhodes of Arizona.
- 11:00 am - Meeting with Dennis DeConcini "re: FHLB examination of Lincoln."
- 1:31 - Meeting with Sen. Don Riegle "re: Ford Motor Co.; Bill Keating; FHLB."
- 2:30 - Meeting with Alan Cranston "re: FHLBB; America votes ACC participation in program."
(Nov. - Cranston is advised by campaign aide to meet with Keating and ask for more money. Cranston did and collected \$250,000 for his voter registration drive.)
1988:
(Jan. 6 - Keating meets with FHLB-Cincinnati and seeks transfer of supervision to that district and out of San Francisco-FHLB.)
(Jan. 7 - ACC reportedly presents a secret file to FHLB Board member Roger Martin allegedly containing negative information about FHLB-SF President James Crona.)
Jan. 7 - Dinner with Anne Scully - Senate Banking Committee legislative assistant to Sen. John Heinz of Pennsylvania to familiarize Scully with our operations and the impact and interface those operations have with current regulatory and congressional enactments so that they might ensure our interests are protected through those enactments."
Jan. 27 - 4 pm Meeting with Rep. Doug Barnard.
- 5:50 - Meeting with Sen. Howard Metzenbaum of Ohio.
- 6:00 - Meeting in Jim Wright's office with George Mohr.
Jan. 28 - 8 am - Meeting with Roger Martin.
- 10:30 - Meeting with Sen. Don Riegle.
- 11:00 - Meeting with Sen. Dennis DeConcini.
- 12:00 - Lunch with Sen. John Glenn.
- 1:30 - Meeting with Sen. Alan Cranston.
- 2:30 - Meeting with Danny Wall (CHK & Wall).
Feb. 4 - 8:30 am - Meeting with FHLB - Darrel Dochow, Richard Sanchez, Mike Patriarca and Steve Hershowitz.
- 8:00 pm - Meeting with Sen. Don Riegle.
Feb. 9 - Sen. Alan Cranston arrives in Phoenix - pick up by ACC at gate and "take directly to CHK's House."
- 9:30 am - Meetings with Sen. Alan Cranston in ACC offices followed by helicopter tour of Phoenix properties.
- 12:00 - Lunch with Sen. Alan Cranston and his son Kim Cranston (Keating presents Cranston with two ACC checks totalling \$500,000 for Cranston's voter registration drive.)
April 8 - Crescent Hotel - Sen. Orrin Hatch of Utah cocktail reception & fundraiser.
May 18 - Dinner with Karl Samuelian and Franklin Tom.
(May 20 - FHLBB enters into Memorandum of Understanding with Lincoln in lieu of conservatorship.)
(June 20 - Keating writes to Dallas FHLB chairman George Barclay regarding Southwest Plan acquisitions and moving Lincoln supervision to Dallas.)
(July 11 - New FHLB exam of Lincoln begins, discovers Lincoln violating terms of Memorandum of Understanding. Regulators ask for a cease and desist order.)
(Dec. 12 - FHLB Office of Enforcement notifies San Francisco examiners it will not issue a cease and desist order against Lincoln.)
Dec. 14 - Keating dines with Sen. Alan Cranston at the Bel Air in Los Angeles.
1989:
Mar. 31 - Phone calls made to Federal Reserve Chairman Alan Greenspan's general counsel regarding Lincoln situation with FHLBB; Bob Kletly regarding press coverage of Lincoln sale.
(April 11 - Keating phones Danny Wall. Leaves message "My life, maybe my fortune at risk.")
April 14 - FHLBB orders conservatorship for Lincoln.

3 of 3

3 SENATORS MADE EXTREME EFFORTS FOR S. & L. FIGURE

EVIDENCE IN KEATING CASE

Documents Illustrate a Close Relationship With Riegle, DeConcini, Cranston

By RICHARD L. BERKE

Special to The New York Times

WASHINGTON, Oct. 17 — Three United States Senators made extraordinary efforts to help Charles H. Keating Jr. protect his failing savings and loan institution and had more frequent contact with him over a longer period than had been thought, documents being examined by the Senate Ethics Committee show.

The three Senators are Donald W. Riegle Jr. of Michigan, Alan Cranston of California and Dennis DeConcini of Arizona, all Democrats. Mr. Cranston, the party whip, and Mr. Riegle, the chairman of the Banking Committee, are among the Senate's most powerful members.

The documents show that Senators Cranston and DeConcini used their elected positions to perform such favors for Mr. Keating, an important political supporter, as making early-morning and late-night telephone calls to Federal regulators on his behalf and urging the White House to name an associate of Mr. Keating to a Federal banking agency. The efforts continued even after he became the subject of Federal enforcement actions. Senator Riegle was portrayed in the documents as the chief arranger of the meetings between the Senators and Mr. Keating.

The three are among five Senators who have been under investigation in connection with Mr. Keating. The others are John Glenn of Ohio, a Democrat, and John McCain of Arizona, a Republican. The Ethics Committee's special counsel, Robert S. Bennett, has recommended dropping the investigation of Mr. Glenn and Mr. McCain, according to Congressional officials.

All Five Deny Wrongdoing

All five Senators have consistently denied any wrongdoing. Aides to some of the Senators under scrutiny said it was unfair to draw conclusions based on documents which, they contended, were leaked to discredit their bosses for political reasons.

The case has been particularly difficult for the panel because the rules are murky in guiding what is proper behavior for Senators working on behalf of constituents. No single document or event has thus far stood out as a "smoking gun," according to people familiar with the investigation. But congressional officials said that the committee was examining the broad pattern of what the Senators did for Mr. Keating, who donated more than a

\$1 million to their campaigns or their causes.

Experts on Congressional rules issued a report recently concluding that a member of Congress's performing an official act beneficial to an individual who made a donation to the member would not in itself indicate a rules violation. The report said whether a violation occurred would depend on whether there was a "linkage" between the donations and assistance.

Vote May Be Near

The confidential documents are among the materials subpoenaed by the Ethics Committee investigating whether the five Senators broke Senate rules that prohibit lawmakers from stepping over the bounds of appropriate conduct in helping their supporters.

These materials, made available on the condition they remain anonymous by people involved in the investigation, are said to be typical of the documents before the committee, which is preparing to vote on the recommendation to proceed to a full-scale investigation of the three Senators. The action could come this week.

The material is the first detailed look, following the initial nine months of an inquiry, of how the Senators performed favors for Mr. Keating, who headed the failed Lincoln Savings and Loan Association of Irvine, Calif. Mr. Keating has been in a Los Angeles jail since his indictment last month on charges of misleading investors about the security of high-yield, high-risk "junk bonds" sold at Lincoln.

According to the documents, the most aggressive efforts to assist Mr. Keating were made by Mr. Cranston and Mr. DeConcini.

Behind-the-Scenes Glimpse

The documents open an extraordinary window into the behavior of some of the most powerful members of Congress, and the steps they took to counter the negative publicity about their ties to Mr. Keating, whom some of the Senators called "Charlie" in personal

letters to him.

In a handwritten memo to his two senior aides in June 1989, for example, Senator DeConcini outlined a plan to counter the negative publicity over the Keating affair. "I think sometimes the best defense is an aggressive offense," he wrote. "This is not going to go away, so we need to be aggressive," he wrote. His first suggestion was to "discredit Gray," referring to his chief accuser, Edwin J. Gray, then chairman of the Federal Home Loan Bank Board.

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The five Senators contend that they helped Mr. Keating as they would any constituent. Asked for comment today, aides to some of the Senators said it was improper to draw conclusions from isolated documents before the committee.

"Not only do these leaks violate ethics rules," said Robert W. Maynes, press secretary to Mr. DeConcini, "but since they are frequently wrong, out of context, they violate average Americans' sense of fair play, since Senator DeConcini is not in a position to defend himself."

Murray S. Flander, the press secretary to Mr. Cranston, said, "These leaks were deliberately made to damage Cranston." He went on to say that "there's a presumption that runs through this that every time Cranston got a memo from someone that he immediately did something. He gets memos all the time. All it proves is that Keating sent him memos."

Mr. Riegle was meeting tonight with the six-member Ethics Committee and his aides said they could not comment until they speak to him.

Inquiry 10 Months Old

The documents have been distributed to all five Senators under investigation and to members of the Ethics Committee.

Most of the materials made available focused on Senators Riegle, Cranston and DeConcini.

The Ethics Committee began an inquiry last December of the actions of the five Senators. According to Congressional officials, the committee's special counsel, Mr. Bennett, has found

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The New York Times

Robert S. Bennett, the Senate Ethics Committee's special counsel, was said to have found evidence to warrant investigation of Senators' efforts on behalf of Charles H. Keating Jr.

evidence to warrant a full-scale investigation of whether Mr. Cranston, Mr. Riegle and Mr. DeConcini broke Senate rules in unduly intervening on behalf of Mr. Keating. But the officials said that Mr. Bennett found there is not as much evidence on the other two lawmakers.

The documents obtained by the committee showed examples of how Mr. DeConcini, Mr. Riegle and Mr. Cranston or their aides kept in close and frequent contact with Mr. Keating through letters, memorandums and personal meetings. The documents show that the lawmakers were kept apprised of Mr. Keating's fund raising for them, and they were told what help Mr. Keating expected from them. In fact, several memos includes references to both political favors done for Mr. Keating and fund raising.

The documents show many links be-

tween the three Senators and Mr. Keating long before, and as long as two years after, the much-publicized April 1987 meetings with Federal regulators.

In a sworn affidavit to Senate investigators, Roger F. Martin, then a member of the Federal Home Loan Bank Board, said that as recently as March or April of 1989, Mr. Cranston and Mr. DeConcini called him to express concern that an investor group led by former Representative John H. Rousselot, a California Republican, that wanted to take over Lincoln before it went under, was not getting fair hearing from the board's Office of Regulatory Affairs.

Mr. Martin said that he keeps an unlisted number at his home in Virginia but that Mr. Cranston tracked him down late one night. At 5:30 the next morning, he said, he received a similar call at home from Mr. DeConcini.

Timing 'Highly Unusual'

He said that neither Senator said whether the acquisition should be approved. But, he said, "The unexplained urgency of the Senators' telephone calls was, in my experience, highly unusual, as was their timing very late at night and very early in the morning," Mr. Martin said in the affidavit. "Further, while members of Congress occasionally attempted to call me at my office, I have never, either before or since this incident, received a telephone call at home from any Senator or Representative regarding a board matter."

Mr. Martin said Mr. Cranston urged the board to meet with Mr. Rousselot "immediately, because he was concerned that the collapse of Lincoln would have a serious impact on the Arizona real estate market."

He went on to say, "I informed Senator Cranston that the board's procedures would not permit a full meeting of the board to be arranged on an urgent basis." When Mr. DeConcini called him the next morning, Mr. Martin said, "he used almost exactly the same words as were used by Senator Cranston the night before."

Elise Paylan, who was the chief assistant to Mr. Martin, said in another

affidavit that her boss told her that "it was his impression that Senator Cranston wanted him to support the Rousselot acquisition, and that he felt that the political heat was on with regard to the proposal."

The board later rejected the acquisition, and the Government soon after seized Lincoln.

Appointment Is Urged

While it had been known that Mr. Keating had championed the appointment of Lee Henkel, a business associate, for an opening on the Federal Home Loan Bank Board, the documents show that Mr. DeConcini encouraged the White House to make the appointment. On June 6, 1986, Mr. DeConcini wrote to Donald Regan, then White House chief of staff, urging the appointment because of Mr. Henkel's record as a lawyer and former official of the Internal Revenue Service.

"I would appreciate an opportunity to talk to you about Mr. Henkel in the very near future," he wrote, "and would be pleased if you would be so kind to call me."

On Oct. 7, 1986, one of Mr. DeConcini's top aides, Laurie A. Sedlmayr, wrote her boss of the news. "The White House called this morning to say that the President will be nominating Lee Henkel for a seat on the Federal Home Loan Bank Board," she wrote. "You wrote a letter to the White House earlier this year in support of Henkel. Gene Karp is going to call Keating, though we are fairly sure he already knows." Mr. Karp is Mr. DeConcini's administrative assistant.

In another example of possible favors, memos show that in 1985 Mr. Keating's aides asked that Mr. DeConcini convince Senator Jake Garn, a Utah Republican who was then chairman of the Senate Banking Committee, to do his part "to prevent the implementation" of regulations that could restrict savings and loan institutions. Mr. DeConcini scribbled on a memo that he had acceded to Mr. Keating's request: "I spoke to Senator Garn and then to Keating," he wrote. "For information only. Dennis."

In his correspondence to the Senators, Mr. Keating seemed to go out of his way to attack Mr. Gray, who was the bank-board head and one of his chief accusers.

'Jupiter Eating His Children'

Mr. Keating wrote to Mr. McCain on July 1, 1986, that the Federal Home Loan Bank Board under Edwin Gray is "diametrically opposed to everything your administration stands for." He said he was enclosing a memo from Mr. Gray's law firm and added, "Can you read the enclosed memorandum and not be horrified at the police state Edwin Gray has created? Like Jupiter eating his children."

In another letter, marked confidential and dated July 31, 1986, Mr. Keating continued his caustic remarks about Mr. Gray. "The FHLB, under Edwin Gray, is a 'Mad Dog' turned loose in a police state effort," Mr. Keating wrote to Mr. McCain. "May I suggest a rat hole costing billions of dollars is a reason to investigate the actions and the results of FHLB policies."

The documents show how Senators and their aides assiduously courted Mr. Keating and his aides, seemingly as much as Mr. Keating courted them. The Senators seemed to have been very much involved, and kept informed, of Mr. Keating's financial efforts on their behalf.

'I Need Contributions'

Mr. Keating wrote a letter to a friend in 1987 that he had "a very serious task to raise funds" for Mr. Riegle, who will be "the next chairman of the Senate Banking Committee — this is extremely important. I need invitees. I need contributions."

Mr. DeConcini took an active personal role in having Mr. Keating's people raise money for Riegle. Mr. DeConcini would write Mr. Riegle personal notes with checks that Keating's people gave him to pass on to his Senate colleagues. A Riegle aide wrote to the Senator that a fund-raising appearance in Arizona, apparently for DeConcini, "will add to your stash."

Appointment Logs Suggest Sen. Riegle Had Extensive Dealings With Keating

By JILL ABRAMSON

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—New disclosures suggest that two senators involved in the so-called Keating Five case may have had more extensive dealings with former savings-and-loan executive Charles Keating than was previously known.

Appointment logs kept by Mr. Keating show that three previously undisclosed meetings were scheduled between the jailed former thrift executive and Sen. Donald Riegle (D., Mich.). The meetings were set for dates after April 1987, when federal regulators told the Michigan Democrat and four other senators that they were seeking a criminal investigation of Mr. Keating.

Excerpts from the appointment logs were published in the National Mortgage News, a trade publication. The three meetings they list between Mr. Keating and Sen. Riegle, chairman of the Senate Banking Committee, were scheduled for the fall of 1987 and early 1988.

It isn't clear whether the previously undisclosed meetings actually were held, although Mr. Keating has been quoted as saying he met "many times" with Sen. Riegle "to well past 1987." Nor is it clear whether the meetings resulted in any further communication between Sen. Riegle and regulators.

Sen. Riegle has denied wrongdoing. He previously told the Senate Ethics Committee that he had no contact with federal regulators concerning Mr. Keating's Lincoln Savings and Loan Association, which was seized by the government last year, after

the April 1987 warning from regulators.

Yesterday, a Riegle spokesperson said the senator wouldn't comment out of respect for the ethics panel's request that "confidentiality of material" be maintained until the committee completes its investigation.

Sen. Riegle spent much of yesterday in a closed-door meeting with the ethics committee, which has been investigating five senators' intervention with federal regulators on behalf of Mr. Keating. The five senators received \$1.3 million in political contributions from Mr. Keating, his family and business associates.

Separately, a person close to the investigation said the ethics committee is "taking a fresh look" at lobbying efforts by Sen. Riegle and Sen. Dennis DeConcini (D., Ariz.) to secure the nomination of a Keating business associate, Lee Henkel, to the Federal Home Loan Bank Board in 1986.

A spokesman for Sen. DeConcini denied a published report in the Washington Times yesterday that said the senator had helped push through a controversial judicial nominee in return for a pledge from the White House that Mr. Henkel would be named to the board. The spokesman, Robert Maynes, said Sen. DeConcini had voted against the judicial nominee, Daniel Manion.

Mr. Henkel was appointed to the bank board in 1986, but resigned the next year under criticism about his financial ties to Mr. Keating.

Mr. Riegle's aide declined comment on the senator's efforts on behalf of Mr. Henkel.

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New Cranston, Keating links discovered

Senator's congressional statement assisted Lincoln in major lawsuit

By George Williamson
San Francisco Chronicle

WASHINGTON — Prodded by Lincoln Savings, Sen. Alan Cranston, D-Calif., took extraordinary steps in 1987 to insert into the Congressional Record a key statement that helped Charles Keating's lawyers in a major lawsuit, the San Francisco Chronicle has learned.

Cranston inserted into the record March 27, 1987, a strong rebuttal to a move by Sen. William Proxmire, who had tried to clarify the authority of the Federal Home Loan Bank Board to regulate savings and loan investment practices.

Cranston, a member of the Senate Banking Committee, wrote his statement without informing Proxmire, then chairman of the panel, or any of his staff. The document

went virtually unnoticed because it was written and inserted into the Congressional Record after the completion of oral discussion on the Senate floor.

Cranston's action was described in detail in a memo dated April 7, 1987, from a top Lincoln lobbyist to Lincoln attorneys.

Because of Cranston's work, the memo said, "actions by the Congress in the past two weeks appear, on balance, to be quite helpful to Lincoln's position in the pending direct investment litigation."

Lincoln's lawyers cited Cranston's statement of March 27, 1987, as a key argument in support of their lawsuit against the government, which had been filed 10 days earlier.

When informed of Cranston's statement, former Federal Home

Loan Bank Board Chairman Ed Gray said: "It's unbelievable that the second-highest-ranking member of the Senate Banking Committee would go as far as he did and work against the federal regulators and taxpayers in such a crass way.

"This has all the appearance of being done for the sole purpose of pleasing and aiding Keating's lawyers in the lawsuit against the direct investment regulation."

Cranston spokesman Murray Flander referred an inquiry to Washington lawyer Bill Taylor, who is representing Cranston in Senate Ethics Committee hearings that begin Thursday on the relationship between former Lincoln Savings & Loan owner Keating and five US senators, including Cranston. Taylor did not return tele-

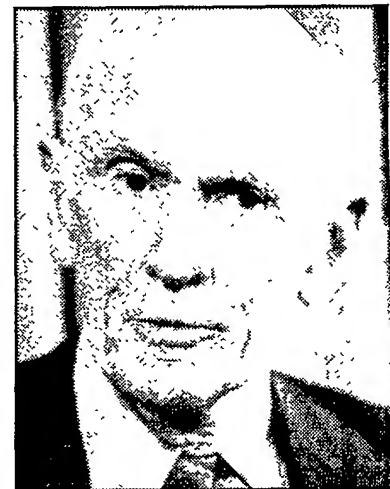
phone calls.

Cranston announced Tuesday that he will miss most of the Senate Ethics Committee's public hearings because he will be undergoing radiation therapy for prostate cancer.

He plans to deliver his opening statement after the committee opens its hearings Thursday.

But Cranston said he won't attend the hearings after Monday, when he will begin a seven-week course of radiation therapy at Stanford University School of Medicine. Cranston said medical experts at several leading hospitals told him his cancer can "best be treated by radiation therapy."

A spokesman for Sen. Warren Rudman, Senate Ethics Committee co-chairman, said Cranston's



Sen. Alan Cranston
He helped Keating's lawyers

absence won't delay or disrupt the hearings.

The New York Times contributed to this report.

Lawmakers parroted Lincoln

Statements written by S&L appeared in the official record

By George Williamson
San Francisco Chronicle

Mount Clipping in Space Below

Name of newspaper, city and state

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WASHINGTON — Four influential congressmen read statements helpful to Charles Keating Jr. into the Congressional Record in 1987 that were "drafted" for them by representatives of Irvine-based Lincoln Savings & Loan, according to a memo obtained by the San Francisco Chronicle.

The statements intimidated top regulators charged with enforcing new investment laws and added to Keating's legal arsenal in his war

against governmental restraints on thrifts, two top regulators said in separate interviews.

The four congressmen were Charles Pashayan, R-Fresno, who was denied re-election last week in

a campaign marked by his ties to Keating; Doug Barnard, D-Ga., a former banker and powerful head of the Government Operations Subcommittee that oversees federal S&L regulators; and House Banking Committee members Paul Kanjorski, D-Pa., and Thomas Manton, D-NY.

Barnard, Kanjorski and Manton denied knowledge of any Lincoln involvement in their statements, which they said were their own. Pashayan did not return phone calls left over a period of five days.

According to a Lincoln memo written Aug. 21, 1987, the statements were part of an effort orchestrated by the high-flying thrift "to stop the Federal Home Loan Bank Board's temporary rule-

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FROM 1
making efforts."

The memo, written from the thrift's top Capitol Hill liaison to the head of the company's legal department, included the statements entered by the four congressmen on Aug. 3, 1987. The memo termed them, "Congressional Record statements we drafted."

"There is a possibility that our efforts will result in a decision by the board (Federal Home Loan Bank Board) not to implement a temporary regulation," concluded the memo, written under the letterhead of Lincoln's parent company.

The regulation allowed federal regulators to require individual S&Ls involved in high-risk investments to put up more of their own money than was required for more cautious thrifts. The board ended up not enforcing that authority, according to sworn testimony last year in House Banking Committee hearings held on Lincoln.

All four statements appear in the Congressional Record exactly as they are written in the memo.

The memo, however, included a statement supposedly written for House Banking Committee member Carroll Hubbard, D-Ky., but Hubbard did not deliver it and said

he had never seen it.

William Black, a top lawyer for the Federal Home Loan Bank Board and its current successor agency, said in a telephone interview that the statements were "clearly designed to aid a legal challenge against any use of the minimum-capital requirement against institutions like Lincoln that were state chartered. Another purpose was to require very time-consuming rule making before the power could be used at all."

Former bank board Chairman Ed Gray, upon being shown the statements, said, "I'm appalled. Those statements sound like they were meant to aid and abet Keating and his causes and even his lawyers. If they (the congressmen) didn't know that, they sure should have."

Gray said the congressmen's statements seemed to have had "at least a dual purpose. Along with potential use in law cases, they sound like a show of force to intimidate the bank board."

With the exception of Manton's, the statements were inserted into the record as part of analyses of a larger bill the representatives offered for the record.

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Cranston admits Keating involvement was 'stupid, unwise'

The New York Times

WASHINGTON — Sen. Alan Cranston conceded to the Senate Ethics Committee in a deposition made public Thursday that his involvement with Charles H. Keating Jr. was "politically stupid and unwise," although he insisted that he did nothing improper in exchange for contributions from the savings and loan executive.

But the California Democrat, under closed-door questioning last April by the Senate Ethics Committee, acknowledged that major donors to his campaigns like Keating, who sought help from Cranston and four other senators to save his collapsing Lincoln Savings and Loan Association of Irvine, got greater access than most citizens.

"The only thing I will grant is that a person who makes a contribution has a better chance to get access than someone who does not," Cranston said.

"All senators know you may get 10, 20, 30, 50 phone calls a day, people trying to reach you, and you cannot answer all those phone calls. So you answer those from those whose names you recognize and who you think you have some obligation to at least hear out.

"I don't think that is particularly fair," said Cranston, who has announced that he is not running for re-election, "but that is the way it works."

Under intense questioning by the panel's special counsel, Robert S. Bennett, Cranston also disclosed many new details about his contacts with Keating, such as how he encouraged him to press Michael R. Milken, the former junk bond financier who was sentenced last week to 10 years in prison for securities law violations, to give more money to the senator's voter registration groups.

So far, Cranston is the only one of the five senators under scrutiny by the Ethics Committee to tell the panel that his contacts with Keating, who faces criminal fraud charges in California, were a mistake.

He also distanced himself from his four colleagues — John McCain, R-Ariz., Dennis DeConcini, D-Ariz., John Glenn, D-Ohio and Donald Riegle Jr., D-Mich. — in saying that big donors got greater access.

Cranston and DeConcini have



Sen. Alan Cranston
Disputes chief regulator's charges

been identified by the committee's special counsel, Robert S. Bennett, as the lawmakers who were most deeply involved with Keating, who was seeking help in fending off regulators from his savings and loan, which the government seized last year.

The 270-page deposition, released Thursday, is the first public document in which Cranston details his contacts with Keating.

In the deposition, Cranston explained that in a conversation with Keating, the topic turned to Milken after Keating asked him who was donating to his voter registration drives.

Cranston said he first mentioned the Rockefeller family, and then told Keating that Milken's firm, Drexel, Burnham Lambert, had given \$25,000.

"He was outraged," Cranston recalled, "that he was giving me large sums and Milken, who has earned a lot more and is worth a lot more, had only given \$25,000, and he said, 'I'm going to call him up and tell him he ought to give you a half million dollars or something like that.' And I thought that would be great."

Milken never came through with more money, Cranston said, although the senator thanked Keating for his efforts.

In the deposition, Cranston disputed assertions repeated this week by Edwin J. Gray, the former chairman of the Federal Home Loan Bank Board, that he was among senators who were pressuring him to help Keating.

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(Mount Clipping in Space Below)

Ethics Action Set After Election in 'Keating 5' Case

By ROBERT L. JACKSON
and MICHAEL ROSS
TIMES STAFF WRITERS

WASHINGTON—The Senate Ethics Committee on Tuesday set public hearings Nov. 15 on ties between savings and loan magnate Charles H. Keating Jr. and five senators.

In deciding on the hearings, the panel reportedly rejected a recommendation by special counsel Robert S. Bennett to launch a full-scale inquiry into the actions of Sen. Alan Cranston (D-Calif.) and two of his Democratic colleagues and to drop charges against two others, one a Democrat and the other a Republican.

The action was viewed by some Republicans as an effort to ensure that their party—not just the Democrats—is left on the hook through the Nov. 6 congressional elections.

Emerging from closed-door deliberations, Ethics Committee Chairman Howell Heflin (D-Ala.) and Vice Chairman Warren B. Rudman (R-N.H.) released a panel resolution stating that next month's hearings will provide "a full exposition of the facts, so that each of the five members can respond to the allegations made against him."

The resolution said that in the open hearings the panel will be

Please see **ETHICS, A10**

Continued from A1

able to "judge credibility and determine whether there is reason to believe any improper conduct may have occurred, and the American people can hear all the evidence."

The committee said that "except in extraordinary circumstances" it would conclude its proceedings before the end of the year.

In a report to the committee Sept. 10, Bennett reportedly had recommended that the panel drop cases against Sen. John McCain (R-Ariz.) and Sen. John Glenn (D-Ohio).

Bennett had recommended an intensified investigation of Cranston and Sens. Dennis DeConcini (D-Ariz.) and Donald W. Riegle Jr. (D-Mich.) on grounds that they had much more extensive dealings with Keating in trying to help him resolve his problems with federal thrift regulators.

All five senators intervened with regulators on behalf of Keating and his ailing Lincoln Savings & Loan Assn. In addition, they received a total of \$1.3 million in contributions from Keating for their campaigns and other causes. All have denied any wrongdoing.

Cranston hailed the committee's action Tuesday, saying that "the public is entitled to get beyond the malicious rumors and selective leaks and to know all the facts. I see this as an opportunity to achieve the public vindication I know I deserve."

Cranston's reference to leaks involved confidential committee documents that surfaced last week showing extensive actions that he,

DeConcini and Riegle had taken to help Keating.

Among the information in the documents were references to late-night and early-morning telephone calls placed by Cranston and DeConcini to the unlisted home number of a federal regulator, Roger F. Martin.

In an affidavit, Martin said the senators used "almost exactly the same words," urging him and his colleagues on the Federal Home Loan Bank Board to meet with an investor group that could have taken Lincoln off Keating's hands at a time when it was on the verge of collapse.

The Irvine-based thrift ultimately was seized by the government in April, 1989, at a potential cost to taxpayers of more than \$2 billion.

(Indicate page, name of The Los Angeles newspaper, city and state.) Times
Los Angeles, California
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Although the committee did not disclose its votes, sources said Bennett's proposal to dismiss McCain and Glenn from further investigation failed to win approval on a tie vote, with the panel's three Republicans voting in favor and Heflin and two other Democrats voting against.

Such action would have left only Cranston, DeConcini and Riegle—all Democrats—under a cloud, giving Republicans a potential campaign issue, even though none of the three is up for reelection this year. In addition, some Democrats suspect McCain's office of having instigated the leaks of committee documents.

The resolution calling for hearings next month into the actions of all five senators was approved

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unanimously, the sources said.

Glenn and McCain bitterly criticized the committee's refusal to drop them from the investigation.

McCain said the committee's failure to act was "an outrage" and called its refusal to make the special counsel's report public "an act of political cowardice."

"I am incredibly puzzled by this bizarre and clearly unprecedented decision by the Ethics Committee," he said.

Senate Minority Leader Bob Dole (R-Kan.) and other Republicans had demanded earlier that the committee act on the recommendations before Congress adjourns, accusing the panel of inexcusable delays.

Glenn declined to attack the committee's motives but said the panel was going back on a guarantee it made to handle the charges against him and the other senators on an individual basis.

Instead, he said angrily, "all five of us will be lined up at the same table" at the Nov. 15 hearing, and "all of you [the media] will have a field day."

"I wanted to be treated as an individual, not as part of a group," Glenn said, suggesting that he does not want to be tarred with the same brush as senators who may be faced with more damaging evidence.

Heflin said the unusual decision to depart from the customary secrecy that surrounds the committee's deliberations was motivated by a need to "promote public confidence in the integrity of the Senate."

(Mount Clipping in Space Below)

Slow pace of 'Keating Five' probe attacked

By Nolan Walters
Knight-Ridder Newspapers

WASHINGTON — In an unusual attack from the floor, Senate Republicans criticized the Senate Ethics Committee on Monday for its slow investigation of the "Keating Five" savings and loan scandal.

The committee's own independent special counsel has recommended that charges be dropped against Sens. John Glenn, D-Ohio, and John McCain, R-Ariz.

The Republican critics spoke carefully, but raised the question of whether Democrats want to keep open the charges against McCain, the only GOP senator under investigation, through the November election.

"I do not deserve to be strung out for week after week, and month after month," McCain said, calling the "system incredibly and inexcusably delayed."

The Ethics Committee's chairman, Sen. Howell Heflin, D-Ala., quickly counterattacked — charging that there's been an "an organized campaign of leaks" designed to undermine the committee's investigation and credibility.

"I have done everything that I possibly can to keep the work of the committee from becoming partisan," Heflin said.

The exchange was the latest skirmish over which party will

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FROM 1

bear the blame for the S&L disaster.

S&L magnate Charles H. Keating Jr. — and his cozy relationship and hefty \$1.3 million in politically related contributions to the so-called "Keating Five" senators — has come to symbolize that debacle.

Six weeks ago, the committee's special counsel recommended that the investigation be expanded

against Sens. Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., and Donald W. Riegle Jr., D-Mich., for their efforts to intervene with regulators on Keatings' behalf.

But he recommended dropping the probe of both McCain, a former Vietnam prisoner-of-war, and Glenn, the former astronaut.

"In the case of Sen. McCain, he's been held hostage before under very difficult circumstances. So let's not keep him hostage here in the Senate," Republican Minority Leader Robert Dole of Kansas said Monday.

Sens. Slade Gorton, R-Wash., and John Danforth, R-Mo., also criticized the Ethics Committee.

Glenn later released a statement asking the committee to either act or release its evidence.

"I am fully prepared to let the public make its own judgment on the facts," Glenn said.

Heflin blamed an end-of-session crush for the committee's inaction, but he suggested a decision could come Tuesday.

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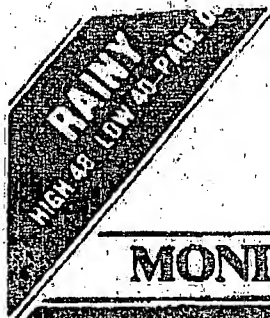
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The Washington Times
Washington, D.C.Date: 12/3/90
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(Mount Clipping in Space Below)



The Washington

MONDAY, DECEMBER 3, 1990

WASHINGTON, D.C.

FBI probes at least 2

By Paul M. Rodriguez
and George Archibald
THE WASHINGTON TIMES

The FBI has begun a wide-ranging investigation that could lead to the filing of criminal charges against at least two and perhaps three of the "Keating Five" senators. The Washington Times has learned.

Congressional and law enforcement sources say the criminal investigation grows out of the FBI's inquiry into the dealings of savings

and loan kingpin Charles H. Keating Jr.

The focus of the FBI investigation are allegations of vote trading and bribery involving Democratic Sens. Dennis DeConcini and Alan Cranston, according to current and former congressional, White House and federal regulatory officials interviewed by FBI agents, some as recently as last week.

The FBI investigation parallels the inquiry of the Senate Ethics Committee's special counsel, Robert

Bennett, who uncovered "credible evidence" that Mr. DeConcini, Mr. Cranston — and possibly Sen. Donald Riegle, Michigan Democrat — may have been involved in illegal activities, said congressional sources who are cooperating with the FBI and the committee.

The Times has been told that a federal grand jury sitting in Southern California is reviewing the evidence involving the senators, but additional details were not yet forthcoming.

On Times

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of 'Keating Five'

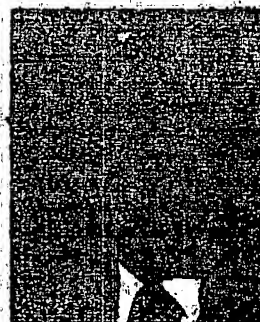
Although the financial dealings and legislative records of all of the Keating Five senators had been reviewed by the FBI over the past year, the latest inquiry centers on the relationships that Mr. DeConcini and Mr. Cranston had with Mr. Keating and his failed thrift, Lincoln Savings and Loan of Irvine, Calif.

Law enforcement, congressional and other sources who asked not to be identified said the FBI is concerned

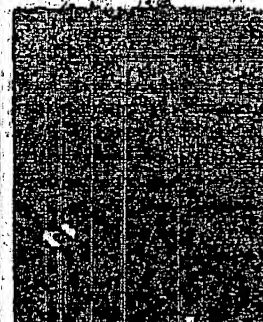
see FBI, page A6



DeConcini



Cranston



Riegle

FBI

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trating on business and land dealings of the senators that might be related to Keating Investments in Arizona and California.

The timing of political contributions and specific legislative efforts by the Arizona and California senators also are said to be under review by the FBI, which declined comment on its activities.

One of the major reasons a confidential report by Mr. Bennett reportedly has been suppressed is that it included some of these findings. The Senate Ethics Committee is now holding public hearings on the five senators' dealings with Mr. Keating.

Mr. DeConcini, reached at his home yesterday, and a spokesman for Mr. Cranston said they were unaware of any criminal probe of the senators' activities. Mr. Riegle could not be reached for comment.

Law enforcement and congressional sources said the bipartisan Ethics Committee is aware of the criminal investigation but has not told the senators' lawyers about it.

Meanwhile, Mr. Bennett has been ordered by the committee to con-

tinue investigating potential areas of criminal wrongdoing.

"There has been controversy on the panel about this aspect of the federal investigation," said a source close to the probes. "But they [committee members] are fully aware of what is going on, maybe not as much as they could be, but they are aware of the criminal investigation and the fact that a federal grand jury is hearing evidence of [alleged] criminal conduct by two and possibly a third member of the Senate."

An FBI source also confirmed the existence of the grand jury.

The Keating Five senators — who also include John Glenn, Ohio Democrat, and John McCain, Arizona Republican — have been under investigation by the Ethics Committee for almost a year. Under scrutiny are their dealings with Mr. Keating, who alone and through family and business associates contributed nearly \$1.3 million to them between 1983 and 1987.

It was during this period that Lincoln Savings, wholly owned by Mr. Keating's American Continental Corporation (ACC), was being examined by federal banking regulators for operating in an unsound manner.

Mr. Keating had enlisted the help of the lawmakers to pressure bank-

ing regulators to drop their examination of and plans for closing Lincoln. He also sought the ouster of Edwin Gray, then chairman of the Federal Home Loan Bank Board (FHLBB), whose regulatory policies he opposed.

Law enforcement sources said the FBI has closely studied Lincoln and ACC corporate documents relating to contacts between company officials and the Keating Five senators and their families and personal business associates.

The FBI has collected land and loan records involving the senators and their immediate families, along with loan transactions they had with Lincoln and other thrifts in Arizona and California. One of these thrifts is Pima Savings and Loan, a Tucson, Ariz.-based institution that was run by the father of a top aide to Mr. DeConcini.

The FBI also is looking into allegations that Mr. Keating padded salaries of upwards of a dozen highly paid Lincoln and ACC executives so they could contribute to political campaigns of the Keating Five; law enforcement and congressional sources said.

It is this particular allegation that apparently brought the FBI "full force" into a criminal investigation

of the lawmakers.

FBI agents suspect that political contributions were "laundered" through Lincoln salaries at about the same time the senators started vigorous efforts in Congress on behalf of Mr. Keating and the troubled S&L, and that at least one senator, as yet unidentified, was aware of the scheme.

Of specific interest to the FBI are a series of meetings some of the senators — especially Mr. Cranston, Mr. DeConcini and Mr. Riegle — helped arrange between Mr. Keating and senior White House officials concerning the nomination of Lee Henkel, a former official with the Internal Revenue Service and a Keating business associate.

Mr. Henkel, a lawyer for ACC with more than \$50 million in business loans, took steps as soon as he was given a recess appointment to the FHLBB to push for a new regulation exempting Lincoln from risky direct-investment limits then in place, which the thrift had exceeded.

Mr. Henkel was forced to resign after Senate Banking Committee and FBI investigations discovered his apparent conflict of interest in pushing a regulation beneficial to

Lincoln at the same time he had close business ties to Mr. Keating.

The FBI also is investigating efforts by Mr. Cranston and Mr. DeConcini in October 1986 and March 1987 to derail banking bill amendments detrimental to Lincoln.

It was during this time that Sen. Cranston, DeConcini and Riegle received the bulk of their political and campaign contributions from Mr. Keating, his family and business associates.

Although Mr. Bennett did not raise the possibility of bribery in his presentation before the Ethics Committee, the suggestion of such criminal wrongdoing has been raised by the FBI in its questions about specific legislative efforts by the senators in relation to Keating contributions.

The FBI has contacted many witnesses used by Mr. Bennett to build his case, as well as other congressional staff and federal regulatory officials.

In his presentation to the Ethics Committee, Mr. Bennett has tried to show that, as a result of Mr. Keating's political contributions, the senators aggressively participated in "an all-out war" against the federal bank regulators on behalf of Lincoln.

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)

The Washington Times
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Edition: 12/4/90Title: "Two of 'Keating 5'
Deny FBI ProbesCharacter:
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Two of 'Keating 5' deny FBI probes

By Paul M. Rodriguez
THE WASHINGTON TIMES

Two "Keating Five" senators challenged a report in The Washington Times yesterday that they are targets of an FBI criminal investigation of their dealings with indicted savings-and-loan tycoon Charles H. Keating Jr.

"The FBI has not notified me of any such investigation," said one of the senators identified by The Times, Arizona Democrat Dennis DeConcini.

"I feel authorized by such an article," he said. "There is no basis for

such an article."

In a statement, Mr. DeConcini volunteered that "I have not now, nor have I ever, had any financial connection with Charles Keating." The Times had not suggested any such connection.

William Taylor, chief counsel before the Senate Ethics Committee for California Democrat Alan Cranston, the other senator who was identified by sources as under FBI scrutiny, said yesterday: "I can assure you that my client is not the target of any such investigation."

see KEATING, page A6

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Mr. Taylor said that "a prosecutor asking questions is a proper aspect" of the federal probe of Mr. Keating, but added: "The bottom line from my point of view... is that Sen. Cranston is not a target of such investigations." He declined to say how he knew that.

Mr. DeConcini acknowledged yesterday that he had cooperated with the FBI "eight to 10 months," but said neither he nor his office had been in contact with federal law enforcement personnel since.

The Times has learned that FBI agents did interview two of Mr. DeConcini's top staff people in recent months: Laurie Sedlmayr, his banking aide, and Gene Karp, his campaign and finance officer.

Sources who asked not to be identified said the two were interviewed

here by FBI agents working for a combined federal task force in Los Angeles and Phoenix. The FBI is investigating possible criminal wrongdoing by Mr. Keating, his family and business associates who were involved with his thrift, Lincoln Savings and Loan, and its parent company, American Continental Corporation.

The sources said the FBI agents told the DeConcini aides at that time that neither they nor their boss was the subject of the criminal investigation. But The Times pointed out that as an outgrowth of the investigation the FBI moved into a new round of questioning involving some of the senators.

The latest FBI inquiries center on Mr. Cranston and Mr. DeConcini, and possibly Sen. Donald Riegle, Michigan Democrat, according to law enforcement and current and former congressional officials. Apparently the inquiry does not extend

to the remaining two of the Keating Five, Democrat John Glenn of Ohio and Republican John McCain of Arizona. The five senators have told the Ethics Committee they have committed no wrongdoing.

They won support yesterday from Sen. Daniel Inouye, Hawaii Democrat, who told the Ethics Committee that they are men of "unimpeachable character."

"If everything turned out well, if we did not have this S&L crisis, if Mr. Keating was once again able to revive [his savings and loan], these men would be heroes to their constituents, they were able to save jobs," Mr. Inouye said. "Today they are damned because the endeavor failed, so I think we are on trial here, the U.S. Senate."

A veteran of the Senate committees that investigated the Watergate and Iran-Contra scandals, Mr. Inouye was asked by committee counsel Robert Bennett about Mr.

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DeConcini's request at an April 1987 meeting that federal regulators waive a rule that was hurting Mr. Keating's thrift.

"I do not believe Sen. DeConcini crossed the line [between proper and improper action]," he said. "I do not believe his statement or representation was improper, because if that is improper, I think all of us at one time or another have done that. A constituent has every right to expect service from us even if the case is not a good one."

But Mr. Inouye added that if a senator takes an action that is tied specifically to a political contribution, "then it not only is inappropriate, but is a violation of the law."

Another witness, Roger Martin, a former member of the Federal Home Loan Bank Board, testified that on several occasions he received phone calls at home and at the

office from Messrs. Cranston, DeConcini and Riegle that he thought were improper because they dealt with an ongoing probe of Lincoln. At one point, he recalled ordering an assistant to contact the senators' offices and ask them "to cease" making such calls.

A third witness, who spent most of the afternoon before the panel, was Joy Jacobson, a top aide to Mr. Cranston in charge of political fund raising for the senator.

Miss Jacobson testified that, while she did not think her contacts with Mr. Keating and his associates were wrong at the time, she would have had reservations given the timing of contributions to her boss that have since been revealed in public.

While federal law enforcement sources confirmed that the FBI is examining the conduct of the senators in connection with its investigation of bank fraud charges against Mr. Keating, it could not be

determined if any evidence of criminal wrongdoing has been found.

DeConcini spokesman Robert Maynes said yesterday that last spring the senator gave the FBI all the documents he submitted to the Ethics Committee.

"This was in connection with the investigation of Keating," Mr. Maynes said. "We turned it over in response to an FBI request."

Cranston Was Most Active of 'Keating 5'

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.) played a more active and independent role than any of the other so-called Keating Five senators in assisting the former owner of Lincoln Savings & Loan, according to evidence gathered by the Senate Ethics Committee.

While there is no indication that Cranston acted improperly in two key meetings that have been the central focus of the committee's lengthy hearings, the case against him is clearly different—and perhaps stronger—than the evidence against the other subjects of the inquiry.

Cranston's alleged involvement with Lincoln owner Charles H. Keating Jr. differs in four ways:

- None of the other four senators has admitted—as Cranston has—soliciting contributions from Keating during the same meetings at which contacts with federal regu-

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lators on Lincoln's behalf also were discussed.

- More documentary evidence has been gathered in Cranston's case to substantiate allegations that actions were taken on Keating's behalf in exchange for campaign contributions. Three memos written by Cranston fund-raiser Joy Jacobson appear to make such a connection.

- While the allegations against the other senators center primarily on their actions at two meetings with federal regulators in April, 1987, Cranston's contacts with federal regulators appear to have been more persistent, spanning a period of several years.

- The amount of money that Cranston solicited from Keating far exceeds the amounts received by the other senators. The California Democrat received \$60,000 in campaign contributions, \$85,000 for the California Democratic Party and \$850,000 for voter registration activities.

Moreover, Cranston appears to have had a warmer friendship with Keating than the other senators, at least between 1986 and 1989, when the Federal Home Loan Bank Board was investigating mismanagement at Lincoln. As Jacobson has observed:

"There was a certain amount of admiration, I think, that developed between the two men in the sense that they are both very tenacious individuals; they don't give up easily. And I think Mr. Keating admired Alan, and I think Alan admired Mr. Keating."

Keating, who has been indicted on securities fraud charges in California, sought assistance from Cranston and other members of Congress in 1986 when federal regulators were investigating Lincoln's financial affairs.

Keating's tenacious political and legal battles with regulators appear to have had the effect he desired, delaying the government's takeover of the ailing institution until April 14, 1989. By that time, Lincoln had racked up \$2 billion in unrecoverable losses.

For the last four weeks, the Senate Ethics Committee has heard hours of testimony concerning allegations that Cranston and the four other senators—Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—improperly took part in a scheme to delay federal enforcement actions while losses at Lincoln piled up.

Although all five senators face similar accusations, the committee has focused most of its attention on the acts of Cranston and DeConcini, who have been described by special counsel Robert S. Bennett as major players in Keating's efforts to manipulate federal regulators.

Moreover, while there has been a lively debate within the committee over the question of whether DeConcini's conduct was improper, sources say that panel members are finding it much harder to dismiss the evidence against Cranston.

The most potent allegation against DeConcini is that he made improper requests of federal regulators on Keating's behalf during the two meetings in April, 1987. Cranston attended one of those meetings only briefly, and he said very little at the other.

The committee's case against Cranston hinges primarily on alleged violations of a standard of conduct outlined in a 1952 report on political ethics by then-Sen. Paul Douglas (D-Ill.), who wrote that campaign contributions should never be solicited by a senator at the same time a favor is being done for the prospective contributor.

"Furthermore," Douglas added, "a decent interval of time should be allowed to lapse so that neither party will feel that there is a close

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connection between the two acts."

On Jan. 8, 1988, Cranston and Keating had dinner together at a restaurant in Los Angeles with Cranston's son, Kim, and Kim's then-girlfriend, actress Shelley Duvall. Kim Cranston apparently was invited to the dinner because he was running one of the groups founded by his father to register new voters, particularly minorities and young people.

During the dinner, by Sen. Cranston's own account, he and Keating first discussed the thrift executive's future contributions to the voter registration effort and Keating then described problems he was having with federal regulators. Before they parted, the senator promised to make two telephone calls to the Federal Home Loan Bank Board on Keating's behalf.

"What happened was that [Keating] indicated he would continue to support the registration thing," he later recalled. "We discussed that a bit and then [Keating] went into his usual tirade about the behavior of the regulators." Among other things, he said, Keating asked him: "How are we ever going to get this resolved?"

After the dinner, Jacobson wrote Cranston a memo to remind him that he had promised Keating that he would telephone bank board member Donald I. Hovde and Chairman M. Danny Wall. Cranston later made both phone calls and persuaded Wall to meet with Keating.

Committee investigators contend that there was not a "decent interval" between the discussion of campaign contributions and sena-

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torial favors at the dinner meeting.

But in his closing argument before the Ethics Committee, Cranston lawyer William W. Taylor III is expected to assert that Cranston did nothing improper because he never explicitly said that he would make the calls in exchange for the contributions. Taylor will also assert that the "decent interval" standard is not a binding rule for Senate members.

Nevertheless, a link between Keating's contributions and Cranston's actions also appears in two other memos written by Jacobson.

In a Sept. 6, 1987, memo designed to prepare Cranston for an upcoming meeting with Keating, Jacobson observed that the appointment of Wall to the bank board was surely "good news" to Keating, who maintained that he had been unfairly persecuted by Wall's predecessor. In the next sentence, she added: "You should ask Keating for \$250,000."

And in a memo to Cranston on Jan. 2, 1987, Jacobson listed Keating as one of several people "who have been very helpful to you who have cases or legislative matters pending with our office [and] who will rightfully expect some kind of resolution."

In an effort to minimize the importance of Jacobson's three memos, Taylor will assert that Cranston cannot be held responsible for what his aide might have written. In addition, Jacobson has testified that neither she nor Cranston ever made a direct link between Keating's contributions and the senator's favors for Keating.

Just as Cranston's meetings with Keating were many, so were his contacts with federal regulators on behalf of the controversial thrift owner. In fact, Wall has described the frequency of Cranston's contacts with the bank board on behalf of Keating as "unusual."

Cranston contacted Wall on Keating's behalf at least five times before the collapse of Lincoln Savings & Loan in April, 1989. In addition, Carolyn Jordan, Cranston's Banking, Housing and Urban Affairs Committee aide, appears to have had frequent contacts with the regulators about Lincoln.

In his contacts with regulators in 1987, Cranston urged a speedy

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conclusion to the bank board's investigation of Lincoln. In 1988, Jordan told bank board officials that the senator was concerned that the board had decided to closely monitor Lincoln. And in early 1989, the senator urged the board to permit Keating to sell Lincoln.

Throughout this period, Cranston apparently never doubted Keating's contention that he was being unfairly harassed by the bank board or that Lincoln was being run in a sound manner. Even when he learned that the Justice Department was investigating Lincoln, he was assured by Jordan that a criminal inquiry was just further evidence of the harassment of Lincoln.

Taylor is expected to argue that none of Cranston's requests to the

bank board were improper because he never sought special treatment for Lincoln. He also will assert that Cranston had every reason to believe that Keating's complaints of harassment were accurate.

The contributions that Cranston solicited from Keating during this period totaled nearly \$1 million.

By comparison, the other senators received considerably less from Keating. Glenn got \$234,000; DeConcini, \$51,000; McCain, \$112,000, and Riegle, \$78,250. Unlike Cranston, none of these senators was raising money for voter registration.

Cranston has insisted that he did not benefit personally from these contributions. Indeed, none of the money went into the senator's pocket. Nor did Cranston's son, Kim, receive any salary from the voter registration groups to which

Keating contributed.

But committee members appear to doubt Cranston's contention that he did not benefit from the money.

Sen. Warren B. Rudman (R-N.H.) has emphasized that the voter registration effort was designed to keep Senate Democrats in the majority. As assistant majority leader, Cranston clearly had a stake in maintaining Democratic control of the Senate.

Furthermore, committee investigators have pointed out that Cranston wrote to Keating after the 1986 election, saying that the thrift executive's \$85,000 contribution to the California Democratic Party had been crucial to his reelection.

"Without your great help," Cranston told Keating, "I know that this victory would have been impossible."

Cranston aide slips up

during 'Keating Five' hearings

She admits possible violation of rules on Capitol activities

By Kristin Huckshorn
and Tom Webb
Knight-Ridder Newspapers

WASHINGTON — The chief fund-raiser for Sen. Alan Cranston denied a pattern of apparent links between contributions and political favors in testimony Monday before the Senate Ethics Committee.

But Joy Jacobson inadvertently admitted at the end of the day that she might have broken Senate rules by using a telephone in Cranston's Majority Whip office inside the Capitol to solicit contributions.

"Are you aware ... that there is a Senate rule against fund-raising on Senate premises?" asked Sen. Trent Lott, R-Miss.

"I am not aware" of the rule, Jacobson replied.

The admission undercut Jacobson's repeated explanations that her attendance at meetings with Cranston and savings and loan owner Charles Keating Jr. was not improper because she didn't participate in their conversations about Keating's problems with banking regulators but instead sat in a corner phoning contributors.

Those calls would violate Senate rules that forbid use of US government office space or facilities to raise funds, a source close to the committee said.

The committee is in its fourth week of hearings on whether Cranston and four other senators — Republican John McCain of Arizona and Democrats Dennis DeConcini of Arizona, John Glenn of Ohio and Donald Riegle of Michigan — intervened improperly with federal regulators on Keating's behalf.

Cranston is undergoing radiation treatment in California for prostate cancer and is not expected to appear before the committee.

But the case against the California Democrat was center stage Monday as Jacobson attempted to

explain a series of damaging memorandums and meetings that seemed to link favors and fund-raising, along with a loan application by Cranston to Keating's Irvine-based Lincoln Savings.

Jacobson said that she couldn't remember what was discussed at the meetings she attended with Keating and Cranston. She explained questionable phrasing in the memos as coincidental or misconstrued.

Keating never directly asked for help in return for contributions, she said. If he had, "I would have passed along to the senator, 'This is somebody we've got to get away from,'" Jacobson said in a deposition released Monday.

The difference between a direct and indirect link apparently was too subtle for Robert Bennett, special counsel to the committee. "If I'm sitting on a park bench and an 800-pound gorilla comes around and says, 'Excuse me, are there any seats around here ...' he's got a seat," Bennett said. "There is a repeated pattern here of action being taken on behalf of Mr. Keating right before or right after you and the senator are asking for large sums of money to be donated."

Jacobson insisted that, although Keating's associate, Jim Grogan, called her on several occasions and mentioned banking issues, she never asked him during the same conversation for contributions.

In a separate development, the Washington Times reported that the FBI is investigating Cranston and DeConcini in connection with vote-buying and illegal business dealings involving Keating.

It has been known for months that the FBI was investigating Keating and the senators, but Monday's report was the first suggesting a link between official actions and private business dealings.

DeConcini said Monday he knew of no such investigation, and charged that he is being "terrorized."

Cranston's lawyer also flatly denied that Cranston was the target of any criminal investigation.

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A6 TUESDAY, DECEMBER 4, 1990

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Inouye, Defending 'Five,' Says Senate Is on Trial

No Rules Broken to Aid Keating, He Asserts

By Helen Dewar
Washington Post Staff Writer

Sen. Daniel K. Inouye (D-Hawaii) told the Senate ethics committee that Congress itself is "on trial" in the investigation of five senators' ties to savings and loan executive Charles H. Keating Jr. because in their service to a constituent the senators did nothing out of the ordinary.

Inouye, the first senator to come before the panel in defense of his colleagues, said they broke no Senate rules or standards of conduct by intervening on Keating's behalf at a time when they were receiving more than \$1.3 million for their political campaigns and causes.

"I believe what is on trial here is not the five colleagues of mine but the U.S. Senate," he said, "and for that matter, the Congress of the United States."

Describing Sen. Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.) as "men of unimpeachable character," he said they were in trouble only because of the savings and loan debacle and the failure of Keating's Lincoln Savings and Loan.

"If everything turned out well, if we did not have this S and L crisis, if Mr. Keating was once again able to revive [Lincoln], these men would be heroes to their constituents, they were able to save jobs," he said. "Today they are damned because the endeavor failed, so I think we are on trial here, the U.S. Senate."

Inouye served on the Watergate and Iran-contra investigative committees and acted as defense counsel to former Sen. Harrison A. Williams (D-N.J.) before Williams resigned from the Senate in 1982 after conviction in the Abcam bribery case. In 1988 he came under

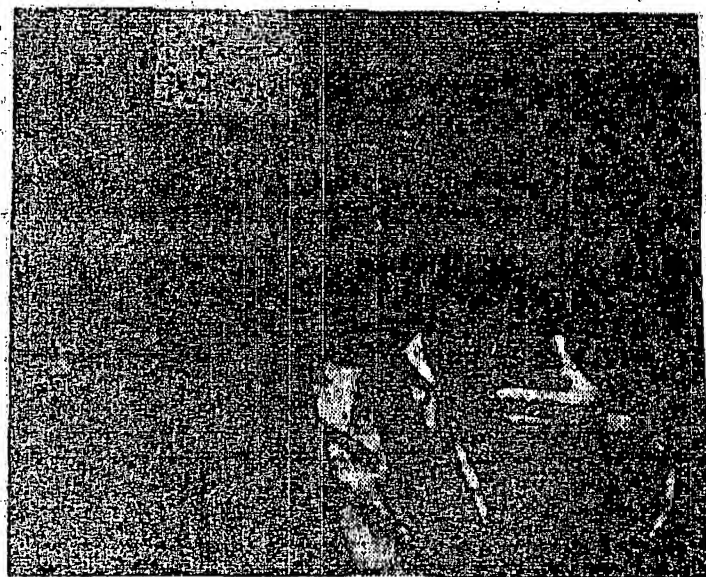
criticism for including funds in an appropriation bill for building schools in France for North African Jews after receiving a \$1,000 campaign contribution from a board member of the organization sponsoring the schools. He later moved to rescind the appropriation, acknowledging that he had made "an error in judgment."

Inouye appeared on behalf of DeConcini, the only senator on hand during his appearance. The Arizona senator reacted emotionally during a break when asked about the testimony. "Sen. Inouye puts a lump in my throat. He is . . .," DeConcini said, his voice breaking as he paused to gain composure. "He is the kind of guy who calls it as he sees it . . . even though the atmosphere is so polluted with charges of impropriety," he added.

In a related development, spokesmen for the FBI and the Justice Department declined to comment on a report in yesterday's Washington Times that said a federal grand jury in Los Angeles is reviewing evidence involving alleged bribery and vote trading by Cranston and DeConcini.

The grand jury has been investigating possible bank fraud by Keating and a Lincoln loan recipient who recently pleaded guilty to bank fraud and agreed to cooperate with prosecutors investigating the collapse of Lincoln. It has been reported before that FBI agents have questioned many individuals familiar with Keating's relationship with the five senators, but there has been no sign the grand jury had shifted the focus of the investigation to the senators.

The committee also heard testimony yesterday from Cranston fundraiser Joy Jacobson, who said in a deposition released yesterday that she would have had "greater hesitation about how much contact we had with Mr. Keating" if she had known "how much else was going on."



Sen. Inouye said his colleagues are condemned "because the endeavor

Asked if Cranston knew, she said, "Well, I would assume that he did."

But she emphasized that if Keating or his representatives had ever drawn a connection between their contributions and intervention on Lincoln's behalf, she would have "passed along to the senator that this is somebody we've got to get away from." She never did so, she indicated.

Jacobson was questioned at length by committee counsel Robert S. Bennett about her attendance at meetings in which Keating and associates discussed complaints about federal regulators' treatment of Lincoln. Keating is now facing trial on fraud charges in California.

A fulltime fund-raiser who was not on Cranston's official Senate staff, she said she was at the meetings only to make the contributors "feel comfortable" while they waited for Cranston. She said she did not bring up fund-raising, saying it would have been "tacky" to do so.

Jacobson said she conducted all of

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Jacobson said it would have been "lucky" to bring up fund-raising at meetings.

her fund-raising efforts on Capitol Hill in meetings that did not involve legislative business. Asked by committee member Trent Lott (R-Miss.) if she knew it was against Senate rules to raise money in the Capitol, she said she did not.

Jacobson confirmed earlier reports that she wrote a memorandum to Cranston on Jan. 2, 1987, saying there were "a number of individuals who have been very helpful to you who have cases or legislative matters pending with our office who will rightfully expect some kind of resolution." She listed Keating among them.

But, in her deposition, she said she meant only that they deserved an answer one way or the other, not necessarily exactly what they wanted.

In a testy exchange with Bennett, she accused him of misrepresenting her response in the deposition when she was asked if Keating was "making these kinds of contributions because he was getting help from Sen. Cranston" with the bank regulators.

"In retrospect, I think that there was a link there," she responded during her closed-door July 19 appearance before the committee.

Jacobson said she meant only to say that Keating may have linked the money and favors he wanted; she was not saying there was a link as far as Cranston was concerned, she said.

Under questioning from DeConcini's lawyer, James Hamilton, Inouye said he did not believe that DeConcini attempted to negotiate a deal for Lincoln in the senators' meeting with federal regulators, as Bennett and the regulators have charged. Even if he did, Inouye said, it would not have been wrong.

Nor, he added, is there anything wrong with a senator or group of senators attempting to pressure regulators in a specific case or a senator or group of senators trying to help a constituent who has contributed to them so long as it is not a favor in return for money.

"I see nothing improper, possibly vigorous, but not improper," he said.

Inouye noted that in 1961, when

he was a House member, he and other lawmakers intervened with the secretary of agriculture while a sugar regulation was pending, although he conceded there were some differences in the two cases.

Under cross-examination from Bennett, Inouye acknowledged there were limits to permissible intervention, including a ban on action in return for contributions, which he said he believed had not occurred in the "Keating Five" case. He also conceded that he had read few of the thousands of documents in the case.

Inouye was asked by Bennett if he agreed with the inscription to former Sen. Philip A. Hart (D-Mich.) on the Hart Senate Office Building that recalls Hart's "incorruptible integrity." Inouye said he did but added that "there was only one" Philip Hart.

"All the rest of us strive to be another Philip Hart, but like intent and action, they often times don't coincide. We try our best, but we do fail ever so often," he said.

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End OF THE Line

Alan Cranston had a gift
for fund-raising. But
tapping S&L tycoon
Charles Keating Jr.
proved the downfall of
his political career.

(Indicate page, name of
newspaper, city and state.)

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By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—During four decades as a dominant force in California politics, Sen. Alan Cranston (D-Calif.) lived something of a double life.

To the liberal Democrats who worked on his campaigns and served as the backbone of his political strength, Cranston was seen as an idealist—a man devoted to arms control, civil rights and helping the poor.

Yet at the same time, in the eyes of the wealthy California businessmen who contributed large sums of money to his political campaigns, he was a man whose strong support for home-state economic interests made him their dependable ally on Capitol Hill.

It was this combination of liberalism and boosterism that served as "Cranston's own version of political magic," as one longtime friend describes it. His unique ability to appeal to both liberals and business interests enabled him to overcome his self-acknowledged lack of personal charisma to be elected to the Senate four times.

"He is not what you would call handsome; he's not long on personal magnetism," says Cranston's friend, who declined to be identified. "Alan's also been astute enough to realize that you can't be elected in California on his brand of ideology. And that is why he has tended to California's economic interests with great care."

But as sometimes happens in politics, the secret of Cranston's success eventually became the tragic flaw. When his supporters learned that their idealistic, hard-working senator had been financing his

campaigns with money from the likes of former Lincoln Savings & Loan owner Charles H. Keating Jr.—the man accused of bilking thousands of elderly Californians out of their life savings—polls showed that support for him vanished almost overnight.

Few successful political careers end as tragically and ignominiously as that of Alan MacGregor Cranston, 76, the former California controller whose tireless devotion to the nuts-and-bolts of politics ultimately earned him the vaunted position of assistant majority leader of the Senate.

Already, the Keating scandal has forced him to give up his leadership position and

to announce that he will not seek reelection in 1992. And now, the final blow: Cranston has been charged by the Senate Ethics Committee with violating Senate rules.

The six-member committee announced Wednesday that Cranston "engaged in an impermissible pattern of conduct" by promising to intervene with federal regulators on Lincoln's behalf at the same time he was soliciting contributions from Keating, who has become a symbol of the collapse of the savings-and-loan industry.

What makes Cranston's humiliation even more dramatic is that he has always been a man with a reputation for personal integrity. Throughout his career, he has been an outspoken critic of funding political campaigns with special-interest money and has fought for public campaign financing.

"I have been trying to reform campaign finance laws ever since I got here," he told members of the Senate Ethics Committee. "I think it is ironic that after all these steps I find myself in this kind of situation."

Nevertheless, the Keating affair was by no means the first time Cranston has been accused of fund-raising excesses:

- As controller of California in the early 1960s, he was accused of trading government jobs for campaign contributions.

- In 1974, as a member of the Senate Banking Committee, he acknowledged he had set up an office in San Diego with \$20,000 given to him by two bankers.

- And more than a decade later, he was forced to pay the second-biggest fine ever levied by the Federal Elections Committee for fund-raising irregularities during his unsuccessful 1984 presidential campaign.

Likewise, Cranston has been accused of using his influence on behalf of his rich contributors. He contacted the Securities and Exchange Commission on behalf of junk-bond king Michael Milken, a contributor, when Milken was under investigation. And he played a key role in winning a tax break for winemakers Ernest and Julio Gallo, also big contributors.

Five years ago, Jon Fleming, then a Cranston aide on tax matters, told *The Times* that the senator had sought so many such tax breaks for wealthy Californians that "my friends on the Finance Committee laugh when they see us coming [and] say, 'What kind of whoring job are you guys working on now?'"

In the final analysis, Cranston is seen by his friends and political allies—almost all of whom refused to speak on the record—as a victim of his own fund-raising success. As one acquaintance puts it, "When you get into a good thing, you just get carried away."

□

It was Cranston's idealist streak that caused him to get involved in politics more than 40 years ago. After working as a foreign correspondent in Europe in the early 1930s, he returned to the United States with the goal of warning Americans about fascism.

Cranston got his start in state politics as a leader of the California Democratic Council, a group that taught him the value of grass-roots voter contact.

Although his goal always was to be a U.S. senator, Cranston first ran for state controller on a ticket that was swept into office in 1958 with Gov. Edmund G. (Pat) Brown. Even then, Cranston had a keen eye for fund-raising opportunities. Friends say he chose the office of controller because it gave him the opportunity to appoint a vast network of tax appraisers who could be expected to contribute to his reelection campaign.

In fact, Cranston's fund-raising among tax appraisers became a political issue in 1964, when he ran for the Democratic Senate nomination against Pierre S. Salinger. Salinger found two former tax appraisers who claimed they had been forced to resign because they refused to contribute to Cranston's

campaign. Cranston countered with an unsuccessful libel suit but lost the election anyway.

Cranston lost the controller's job in the 1966 California Republican sweep. But in 1968, when he ran again for the Senate, he won.

On Capitol Hill, Cranston established himself as a leading liberal—calling for an end to the war in Vietnam, speaking out for arms control and anti-poverty programs, and battling offshore drilling. His reputation in California as an "egghead" followed him to Congress and helped him get elected assistant majority leader in 1977. He led Democrats in some important battles, including those over ratification of the second Strategic Arms Limitation Talks pact and the Panama Canal treaty. (SALT II was never ratified.)

It was in 1971, when he championed the fight for government loan guarantees for Lockheed, that Californians got their first glimpse of Cranston's willingness to go to bat for California business interests. At the same time, he began to solicit campaign donations from wealthy businessmen in the state, many of them prominent Republicans.

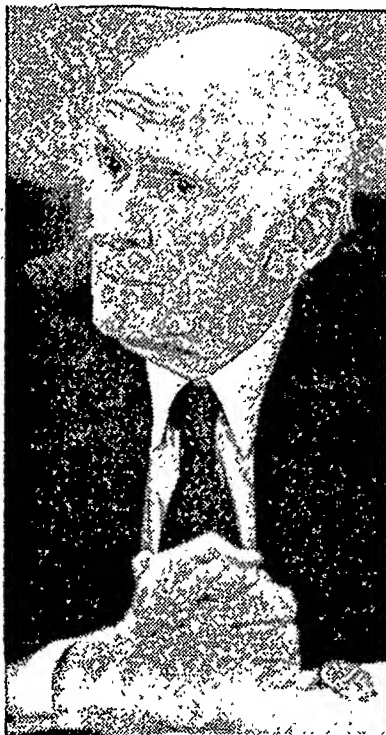
"Cranston, the liberal, was a big surprise when he got to the Senate," says California political consultant Joe Cerrell, who has known the senator since the 1950s. "The ultra-liberal idealist turned into an extremely practical politician. . . . Cranston was the first Democrat [in California] to make a big mark by getting prominent Republicans to support him."

The senator viewed the California business community as his natural constituency. Coming from a prosperous Palo Alto family, he had worked in the real estate investment business with his father before going into politics.

"He was an entrepreneur himself," said a former aide, "and he has always had that point of view."

As a member of the Banking Committee, Cranston was close to banking and savings-and-loan executives. Judging from the thick file of letters he wrote to the Federal Home Loan Bank Board over the past decade—all still in the board's archives—Lincoln Savings was by no means the only thrift he aggressively assisted.

Cranston has consistently main-



'Personally and politically, I wish to God I'd never heard of Charles Keating. It would be easy for me to say that I wish I had not done what I did. But I have gone over these events in my mind, and I'm confident that what I did was right and proper.'

SEN. ALAN CRANSTON

tained that the contributions he received from banking and other California interests had no connection to his work on their behalf.

But unlike most other politicians who wince at the thought of begging strangers for money, Cranston—in the view of a friend—"enjoyed it, almost." Aides say he spent hours on his office telephone "raising dough" as he called it, and he always could be found calling potential contributors at the airport pay telephone when he traveled.

By his own admission, whenever Cranston found a big giver like Keating, he repeatedly went back to that person for more money. He told the Ethics Committee that he had discovered that rich contributors were flattered to be asked for huge sums.

When he met new potential contributors, he systematically wrote their names down on 3x5 cards he carried in his coat pock-

et—a reminder to call them for money.

At first, Cranston's fund raising was designed to win reelection. But he eventually built a fund-raising machine that exceeded his needs, so he began raising money for other Democrats, too. During nearly a quarter of a century in Washington, he raised more than \$25 million for his own Senate and presidential campaigns, as well as millions more for other politicians and causes he supported.

In recent years, as the cost of campaigning grew, Cranston stopped searching for individual contributors, who under the law could give him no more than \$2,000 for each election, and focused on finding people willing to raise \$25,000 or more for him. Charles H. Keating Jr. was such a person.

As a result of Cranston's skill in raising money and his success as a Senate leader, it seemed logical to him in 1984 to take the next step: running for President.

In retrospect, Cranston's presidential bid is sometimes viewed as a joke. Many observers still chuckle at the idea that this bald, gaunt-looking 69-year-old man with no charisma would consider himself presidential timber in a television age. Cranston fueled the ridicule by dying the fringe of white hair around the side of his head an orangish-red color in an attempt to look younger.

But Cranston's presidential campaign was no joke, especially not to him. He garnered some popular support in Iowa and New Hampshire by speaking out against the nuclear arms race and raised an impressive \$9 million. When he bowed out after finishing seventh in the New Hampshire primary, he felt satisfied that he had at least made a respectable showing.

Political analysts cite Cranston's presidential campaign as a turning point in his career: a setback that precipitated a gradual decline in his support among California voters. When he ran for reelection two years later, he barely beat Rep. Ed Zschau (R-Los Altos), a moderate, by a slim 50% to 47%.

After his narrow victory over Zschau, according to aides, Cranston was persuaded that the key to his party's success in California was to register more Democratic voters, mostly young people, Latinos and blacks.

As a result, he began raising money for voter registration. Although federal law restricts regular campaign contributions from individuals to \$2,000, there is no limit to the amount a person can give to a tax-exempt voter regis-

tration group.

Cranston first encountered Grogan, Washington lobbyist Keating, at a Democratic fundraiser in 1984. "I've been very to the savings and loans," senator told him, according to Grogan's testimony before the Senate Ethics Committee. "You all should support me."

Cranston instantly recorded Grogan's name on a 3x5 card. A few days later, the lobbyist got a telephone call from Cranston's chief fund-raiser, who asked if Keating could host a fund-raiser for the senator. Like many of Cranston's contributors, Keating was a conservative Republican.

Eventually, Keating raised more than \$40,000 for Cranston's campaigns, \$85,000 for the California Democratic Party for get-out-the-vote activities during Cranston's 1986 reelection campaign, and \$850,000 for voter registration groups founded by Cranston and his son Kim.

Had the savings and loan industry not collapsed, had Lincoln not been the biggest thrift failure (costing the taxpayers \$2 billion), had Lincoln not sold now-worthless junk bonds to more than 200,000 Californians, Cranston's relationship with Keating might never have come to light.

Keating was not even the biggest contributor to Cranston's voter registration effort. Records show the senator persuaded McDonald's owner Joan Kroc to kick in \$1 million.

But Keating's role as a symbol of the high fliers who drained money from the nation's thrift institutions, combined with Cranston's intervention on his behalf with federal regulators, was a potent political liability the senator could not overcome.

Even before the Senate Ethics Committee held hearings into the Keating affair, exit polls following the last election showed that Cranston's support had virtually disappeared. A short time later, he announced he was retiring in 1992 because he had been diagnosed as having prostate cancer and needed to seek treatment.

Although Cranston's cancer treatment caused him to miss most of the Ethics Committee hearings, aides say he will be back in Washington by Tuesday, in time to prepare the case he will present to the Senate in his own defense. After his response, the committee is expected to recommend that Cranston be censured by the full Senate.

After years of distinguished service in the Senate, Cranston clearly feels he has been betrayed by the system.

And in the end, two things about the Keating affair seem to rankle Cranston most. He strongly resents the implication in many news reports that he benefited personally from Keating's generosity and emphasizes that he never pocketed one cent of the money. He also fears the scandal has besmirched the reputation of his son and always stresses that Kim did not profit from the voter registration organization he ran.

Cranston says he regrets the Keating affair, but not because he thinks it was wrong.

"Personally and politically," he told the Senate Ethics Committee, "I wish to God I'd never heard of Charles Keating. It would be easy for me to say that. I wish I had not done what I did. But I have gone over these events in my mind, and I'm confident that what I did was right and proper."



LOBO STEPLER — Los Angeles Times

A longtime advocate of campaign reform, Sen. Alan Cranston says, "It is ironic that I find myself in this kind of situation."

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The Orange County Register

A7

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Newspaper says missing letter hurts Riegle's 'Keating Five' case

Document said to
show intervention
prior to Lincoln

By George Williamson
San Francisco Chronicle

WASHINGTON — A letter that has been missing from US Sen. Don Riegle's government file apparently undermines a key element of his defense in the recent "Keating Five" hearings, the Chronicle has learned.

The previously undisclosed letter, sent to Federal Home Loan Bank Board member Ed Gray in April 1983 shortly after his appointment, strongly protested the bank board's treatment of Biscayne Savings and Loan, an insolvent Florida thrift.

It was sent jointly by Riegle and two other members of the Senate Banking Committee; Sen. Alan Cranston, D-Calif., and former Sen. Paula Hawkins, R-Fla.

The document, found by the Chronicle in a bank-board file of Cranston correspondence, was written four years before Cranston, Riegle and three other senators intervened with regulators in April 1987 about Charles Keating Jr.'s Lincoln Savings at meetings that became the centerpiece of the



Sen. Don Riegle
Letter might undercut defense

Senate Ethics Committee's Keating Five hearings.

The Chronicle has learned that Riegle's pre-1987 files have been missing since at least early last year. How the papers disappeared remain a mystery. Riegle's spokeswoman said the senator was unavailable for comment.

Experts familiar with the savings and loan scandal say the letter could challenge a cornerstone of Riegle's defense, which was that he had demonstrated consistent pro-regulatory credentials that directly contradict claims that he at-

tended the meetings to intimidate regulators on behalf of Lincoln.

In an interview, prominent economist George Bentson — whom Keating tried to get appointed to the bank board in 1986 — called the Biscayne letters "more blatant than the Lincoln meetings."

Former Federal Reserve Board general counsel John Hawke labeled the correspondence "frankly outrageous."

On Feb. 27, the Ethics Committee issued reprimands to Riegle and Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; and John Glenn, D-Ohio. The committee announced that it will proceed toward possible full Senate censure against Cranston. The panel has been accused of deliberately targeting Cranston while going relatively easy on the other senators.

The defense Riegle, D-Mich., offered to the ethics panel centered on his claims that, as a member of the powerful Senate Banking Committee, he had shown a consistent pattern of support for S&L regulators.

Riegle said the record showed specifically that he never wrote the bank board on behalf of Lincoln or the policies it supported. In addition, he said records indicated that interfering with their handling of a specific thrift was not his style.

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Memo hints that senators wanted Lincoln hearings to die

By George Williamson
San Francisco Chronicle

WASHINGTON — A potentially explosive Lincoln Savings & Loan memo that did not surface in the so-called "Keating Five" Senate hearings suggested that four Democratic senators wanted to stem momentum that was accelerating toward congressional hearings on Lincoln.

The June 28, 1988, memo reported that Sen. Alan Cranston of California was anxious to contact Rep. Charles Schumer, D-NY, an influ-

ential member of the House Banking Committee, at a time when that committee's staff was pressing to put a public spotlight on Irvine-based Lincoln.

"I wanted to let you know that Sen. Cranston was anxious to call Schumer and tell him that the four Democratic senators involved would greatly appreciate letting this dog die!" Lincoln lawyer and lobbyist Jim Grogan wrote Dave Evans, a key Capitol Hill lobbyist for then-Lincoln owner Charles H. Keating Jr., under a Lincoln letterhead.

The words "anxious" and "greatly appreciate" were underlined for emphasis in the one-sentence memo.

Congressional hearings, like recommendations by federal regulators 13 months earlier for a government takeover of Lincoln, were delayed until 1989 despite urgings from the House Banking Committee staff that had peaked when the memo about Cranston was written.

The memo, which has long been in the files of several federal agencies and offices, did not identify the three other senators or specify

what the metaphorical "dog" was. But in light of what was known to be happening within the banking committee at the time the memo was written, the fact that it was not explored under oath during the Keating Five hearings raises new questions about important ground missed in the Senate Ethics Committee's investigation.

Four of the five senators probed by the committee are Democrats. The hearings focused on whether large campaign contributions from Keating prompted them to intervene with regulators on Keating's

behalf in April 1987. Of the five, only Cranston was singled out by the committee for possible censure by the full Senate.

Grogan's memo is the latest discovery of information that could have strongly challenged defenses in the ethics hearings but was either not found or went unused.

The previous findings about omitted matters centered primarily on Senate Banking Committee Chairman Don Riegle, D-Mich., whose 10 years of missing correspondence with regulators included a letter he and Cranston wrote

in 1983 on behalf of an insolvent Florida institution.

A Schumer spokesman said the congressman does not remember any call from Cranston about Lincoln. Cranston spokesman Murray Flander said the Schumer recollection "shows Alan Cranston wasn't very anxious about it if he didn't make the call. Grogan's interpretation of Alan's position was clearly not accurate."

Robert Bennett, special prosecutor for the Ethics Committee, said he could not comment because the Cranston case is still pending.

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A Reply From Sen. Cranston

Your recent editorials about my current status before the Senate Ethics Committee are totally unfair and incredibly inaccurate.

Piling on the malice, you build a false and distorted case against me in your July 26 editorial based on eight egregious errors of fact in your July 24 editorial.

1. "He [Cranston] has tried to disqualify a new committee member from ruling on his case. . . ."

UNTRUE. I have not moved to disqualify Sen. Jeff Bingaman (D., N.M.), as unidentified sources alleged. Sen. Bingaman recently disqualified himself, due to his admirable and scrupulous concern for due process, when he discovered his wife's law firm had a potential conflict of interest.

2. "... [Cranston] reportedly squelched an FBI probe into whether his activities were indictable. . . ."

UNTRUE. On Sept. 19, 1989, I phoned FBI Director William S. Sessions to offer my full cooperation in any investigation his agency might conduct of the Keating affair. I subsequently reported this publicly.

3. "... he threatened to revive the charges against the four Senators exonerated by the committee, and for that matter the rest of his 99 colleagues."

UNTRUE. I have made no such threats. Threats are not in my vocabulary or my code. I don't resort to threats. I never will. I have said that my behavior did not differ in kind from that of the other four senators whose cases were not sent to the full Senate for discipline, and that therefore my treatment should not differ in kind from theirs.

I have never resorted to an "everybody does it" defense. My purpose in the hearings when I displayed lists of Senate staffers employed by 99 of my colleagues—staffers authorized under Senate Rule 41 to raise funds—was to make one point: that the Senate specifically permits employees with substantive responsibilities to also raise money.

4. "The five Senators collected large campaign contributions from Mr. Keating. . . . Senator Cranston took by far the most money. . . ."

UNTRUE. I received less in political contributions from Mr. Keating than did any one of the other four senators. What bloated the money figure the press links to me is money I solicited from Mr. Keating for donations to IRS-approved 501 (c) (3) tax-deductible nationwide nonpartisan voter-registration organizations over which I had no control. The Ethics Committee confirms that not a penny went into my pocket.

5. "Senator DeConcini, as well as Senator Cranston, intervened on Mr. Keating's behalf even after they were warned he was

the focus of a major criminal investigation."

UNTRUE. We were never warned about a "criminal investigation" of Mr. Keating. I learned from my staff of a criminal referral by regulators regarding Lincoln Savings, long after the referral was made. There never was a criminal investigation by the Justice Department as a result of this referral. Furthermore, Mr. Keating himself was not the target of the referral. Rosemary Stewart, director of the Office of Enforcement of the Bank Board, testified publicly that there was no evidence of misconduct by upper management of Lincoln (at that time) and that it was difficult to conclude whether or not there was criminal conduct.

6. "The five Senators . . . intervened with federal regulators to go easy on . . . Lincoln Savings."

UNTRUE. The press repeats this charge ad nauseam, but the fact is there is no evidence in the record to substantiate it. There is abundant evidence in the record to the contrary in the sworn testimony of the regulators.

7. "... it was clear all along that Lincoln was peddling uninsured debentures in old-folks homes."

UNTRUE. I never heard about the debentures Lincoln was selling until almost the eve of Lincoln's seizure by the regulators. There is no evidence to the contrary.

8. "Everyone expected that the committee would recommend that the full Senate censure Mr. Cranston."

UNTRUE. There have been all sorts of unverified speculation, leaks, rumors and anonymous predictions from unidentified sources conjecturing that the committee might do any number of things. How can the Journal pretend to know what "everyone" expects or thinks?

The Journal wants the Senate to "draw a line somewhere." I have publicly advocated election reform for 30 years, before I even came to the Senate, and in the Senate I first introduced election-reform legislation in 1973.

I suggest that the Journal, in exercising its undisputed right to make editorial judgments, draw the line on political biases that lead to distorted reporting of fact.

SEN. ALAN CRANSTON (D., Calif.)
Washington

WALL STREET JOURNAL

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~~ORANGE COUNTY~~

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LOS ANGELES

Cranston Sent Letter for BCCI-Linked Thrift,

■ **Ethics:** Senator reportedly acted after \$25,000 was contributed to a voter sign-up group he had established.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.) wrote a letter to the Federal Home Loan Bank Board in September, 1988, at the request of a contributor, David L. Paul, owner of CenTrust Savings Bank, the Miami-based thrift owned partly by the scandal-ridden Bank of Credit & Commerce International, according to a report published Saturday.

The letter was written just two months after Paul, who currently is under grand jury investigation on allegations that he mismanaged CenTrust, contributed \$25,000 to a voter registration group established by the California senator.

This account of Cranston's alleged actions on behalf of Paul was published in Roll Call, a newspaper that focuses on Congress. The article was based on a previously undisclosed tape of a conversation in 1988 between Paul and an unnamed Washington lobbyist. The newspaper said the tape had been obtained by federal regulators when they seized CenTrust several years ago.

The transcript of the tape also suggests that Cranston and Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.) struck a deal when the Democrats took control of the Senate in 1987 whereby the California senator would relinquish his seniority right to step into the committee chairmanship if Riegle deferred to him on banking matters involving California.

Cranston became assistant majority leader instead of claiming the chairmanship.

Cranston's spokesman, Murray Flander, denied all of the allegations contained in the Roll Call article. He said Cranston and Riegle never had such an arrangement, and he denied that Cranston wrote his letter to the FHLBB at the behest of Paul. He said the senator's letter to the FHLBB was

simply addressing a problem that many thrift industry leaders had been complaining about.

Cranston's letter expressed opposition to a rule that would have required thrifts to value certain assets at market value. The proposed rule was opposed by many thrifts that, like CenTrust, were holding junk bonds whose value had plummeted.

The allegations raised in the Roll Call article are similar to charges that have linked Cranston to Charles H. Keating Jr., owner of the Irvine-based Lincoln Savings & Loan.

Cranston has been under investigation by the Senate Ethics Committee for the last two years on charges that he intervened im-

properly with the FHLBB on Lincoln's behalf in exchange for nearly \$1 million in contributions by Keating to Cranston's campaign, the California Democratic Party and voter registration groups founded by the senator.

The six-member Ethics Committee recently arrived at a stalemate on the question of whether Cranston's role in the Keating affair should be considered by the full Senate.

Like Keating, Paul was a big political contributor who sought the help of Washington politicians when his high-flying management style caught the attention of federal regulators. He spent millions of dollars on lavish entertaining and art work and frequently hobnobbed with Saudi businessman Ghaith R. Pharaon, who has been accused by federal

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LOS ANGELES TIMES
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investigators of acting as a surrogate in the United States for BCCI.

In June, 1988, Paul contributed \$25,000 to one of Cranston's voter registration groups. Two months later, on Sept. 22, Paul was told by his hired lobbyist during the taped conversation that Cranston had agreed to write a letter to the FHLBB in opposition to the proposed new assets rule that Paul strongly opposed.

Files at the Office of Thrift Supervision, the successor agency to FHLBB, contain a copy of a letter written to the board by Cranston that expresses opposition to the rule opposed by Paul. It is dated Sept. 22, 1988—the same day as the taped conversation between Paul and his lobbyist—but the letter makes no reference to Paul or CenTrust.

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FBI — LOS ANGELES

Panel weighs Cranston deal

Ethics committee tries to wrap up 'Keating Five' case

By Phil Kuntz
Congressional Quarterly

WASHINGTON — The Senate Ethics Committee is working on a deal to break its impasse over how to discipline Sen. Alan Cranston, D-Calif., for his conduct in the "Keating Five" case.

The panel is "trying to find a way to get it to the floor without a major shootout," said one official familiar with the panel's work. He called the deal "innovative."

Three sources familiar with the possible compromise confirmed its rough outline: The Ethics Committee would rebuke Cranston, and the full Senate would somehow vote on the matter — but without censuring Cranston directly.

Such a compromise would break a long deadlock. The ethics panel's three Republicans reportedly have advocated having Cranston censured by the Senate, while the three Democrats favored a milder committee reprimand similar to, though possibly harsher than, the criticisms it leveled against the other Keating Five senators.

Cranston has been indirectly involved in the talks through Sen. Harry Reid, D-Nev., who has agreed to represent his colleague's interests because Cranston has not been able to afford a defense lawyer for months, according to one source. Reid declined to comment.

Cranston, who is not running for re-election next year, has a certain amount of leverage in the matter because he has promised to fight vigorously any move to censure him — prompting just the kind of bloody battle many members want to avoid. Republicans on the committee have insisted on limiting Cranston's participation because they do not want to appear to be accommodating.

"There's no plea bargaining going on," one source said.

The compromise is not final and could evaporate. One source called it "very delicate." Any such deal could be hard to consummate because Sen. Jesse Helms, R-NC, appears unlikely to go along.

Helms refused to comment directly but pointedly noted that his participation in the latest round of closed-door deliberations has been limited. "They'd like me to vote with them, and I'm not going to," he said.

Helms may not be able to kill the deal, but if the committee brings a solution to the floor, he would try

BACKGROUND

The "Keating Five" consists of Democratic Sens. Alan Cranston of California, John Glenn of Ohio, Donald W. Riegle Jr. of Michigan and Dennis DeConcini of Arizona and Republican Sen. John McCain of Arizona.

Earlier this year, all five were chastised by the Senate Ethics Committee for exercising poor judgment in trying to help Charles H. Keating Jr. during his bitter feud with federal thrift regulators after and while he raised a total of \$1.5 million for their campaigns and political causes.

Riegle and DeConcini also were rebuked for creating improper appearances, but Glenn and McCain were not. That ended the cases against those four.

Cranston was singled out for the possibility of the most severe punishment — a rebuke by the full Senate.

to amend it to censure Cranston.

Such a move could produce a drawn-out debate and thwart another committee aim: to resolve the case before Congress adjourns for the year. "We're meeting frequently with that goal — to dispose of the whole thing" this year, said panel chairman Howell Heflin, D-Ala.

The panel has met about a dozen times since mid-September. The movement toward a compromise apparently began in mid-October after some committee members began worrying that the Senate's public image, badly battered by the Clarence Thomas-Anita Hill imbroglio, would be further damaged by an indefinitely stalled Ethics Committee.

That prompted Sen. Trent Lott, R-Miss., to drop plans to ask the panel to declare itself hopelessly deadlocked. Lott is key to any compromise because his view of the evidence against Cranston seems to be as harsh as Helms'.

According to one source, the talks have moved in a direction that Lott can accept: a compromise between the two "stark alternatives" — a full Senate censure and an Ethics Committee rebuke.

The compromise, if approved, would allow Republicans to declare that the case had been resolved with "a very serious indictment" of Cranston, who "will not be able to say that he was not dealt with seriously," this source said.

If a compromise is reached, the

most controversial and disputed ethics case in the recent history of the Senate will end without ever having been openly debated by senators.

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Cranston Harshly Rebuked, Shows Little Remorse

■ **Ethics:** Panel calls 'linkage' of contributions to aid for Lincoln Savings' Keating 'improper and repugnant.' But the senator says his colleagues do the same thing.

By SARA FRITZ, TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.) was harshly reprimanded by the Senate Ethics Committee on Wednesday for "improper and repugnant" behavior in his relationship with former savings and loan owner Charles H. Keating Jr.

But, showing little remorse, Cranston declared that most senators do exactly what he did.

During a somber, two-hour session in the Senate chamber, Cranston, 77, listened to a detailed explanation of offenses that were uncovered by Ethics Committee investigators during a two-year inquiry into his relationship with Keating, who headed the now-failed Lincoln Savings & Loan Assn.

Reading directly from the complaint, Sen. Howell Heflin (D-Ala.) said the panel found "clear and convincing evidence that, based upon the totality of the circumstances, Sen. Cranston engaged in an impermissible pattern of conduct."

Acknowledging that Cranston had broken no law and no specific Senate rule, Heflin—who headed the ethics panel during most of its investigation of Cranston—cited four instances considered by the committee to be improper "linkage" between Cranston's solicitation of contributions from Keating and his inquiries with federal regulators on behalf of Lincoln Savings.

For the Senate, which endured a barrage of criticism for its handling of the confirmation of Supreme Court Justice Clarence Thomas earlier this fall, the reprimand of Cranston was a way of demonstrating to critics that Congress does not wink at misconduct—even within its own ranks.

Throughout Heflin's speech, Cranston sat impassively, with criminal-defense lawyer Alan M.

Please see CRANSTON, A27

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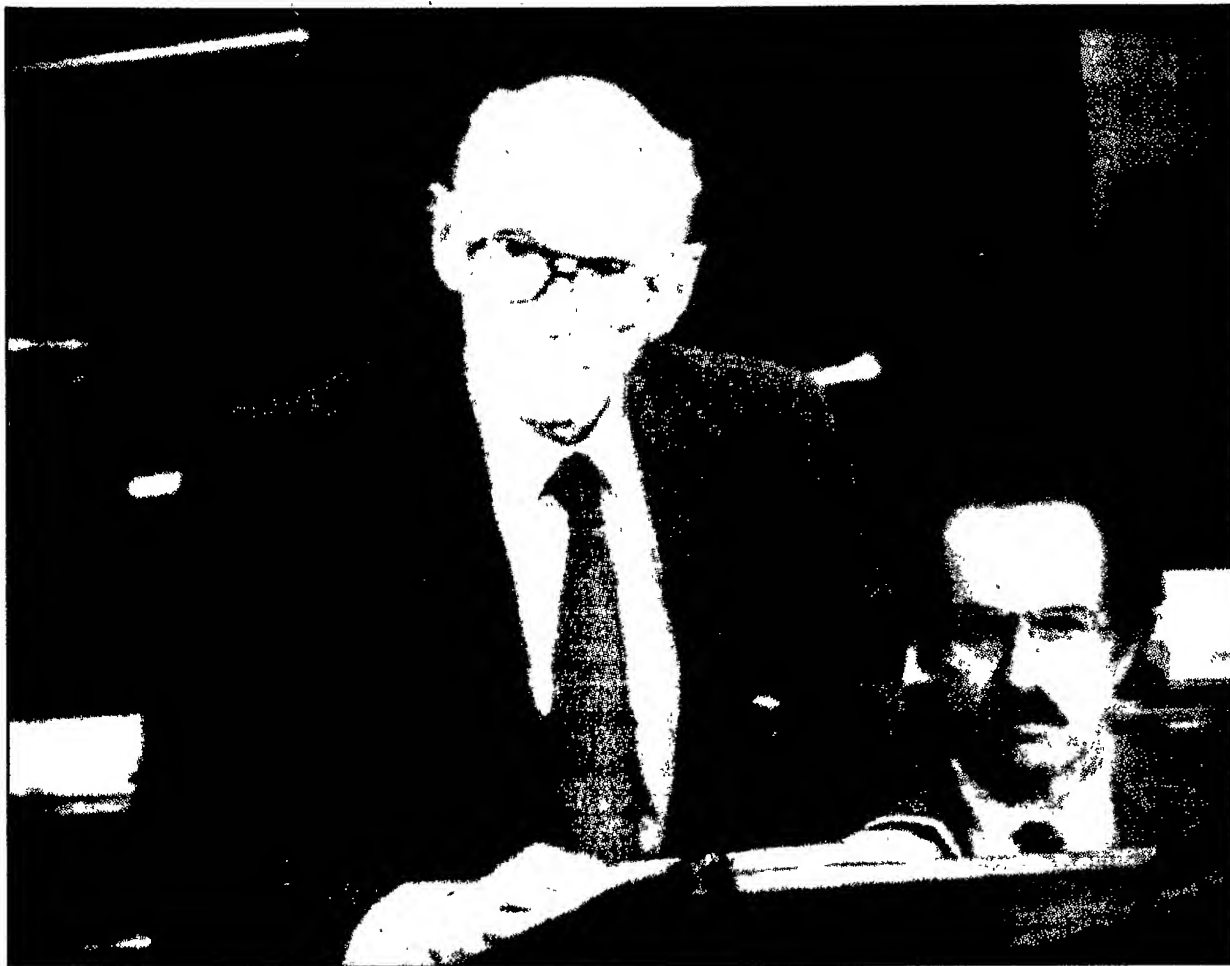
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CRANSTON: Keating Ties Spur

Rebuke, Little Remorse



BERNIE BOSTON / Los Angeles Times, from Senate Television

Sen. Alan Cranston (D-Calif.) after being rebuked by ethics panel. At right, his lawyer, Alan M. Dershowitz.

Continued from A1

Dershowitz occasionally whispering legal advice in his ear. The experience was obviously a painful one for the onetime presidential candidate and former assistant majority leader.

Cranston then rose in his own defense. Although apologizing for his behavior and agreeing to accept the reprimand, he made it clear that he disagrees strongly with the committee's findings that his behavior was a radical departure from the Senate norm.

"How many of you," he asked, "after really thinking about it, could rise and declare you've never, ever helped—or agreed to help—a contributor close in time to a solicitation or receipt of a contribution? I don't believe any of you could say never."

Then Cranston stunned his colleagues by saying that he—with Dershowitz's help—had investigated the conduct of other senators and had found many examples of similar behavior on their part. He did not name any of the senators to whom he referred and he flatly refused later to identify them.

Cranston's defense of himself was so strident that Sen. Warren B. Rudman (R-N.H.), vice chairman of the Ethics Committee, immediately jumped to his feet and condemned the senator's speech as "arrogant, unrepentant and a smear on this institution."

"Everybody doesn't do it," Rudman insisted.

Afterward, several Republican senators charged that Cranston's statements violated the spirit of an agreement under which the Ethics Committee had said it would not call for a full Senate vote on the censure if he accepted the reprimand. Some senators even threatened to move for a vote condemning Cranston in the near future.

The floor proceedings culminated an intensive investigation of a complaint brought more than two years ago by citizens' lobby Common Cause. It alleged that Cranston and four other senators—Dennis DeConcini (D-Ariz.), Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio) and John McCain (R-Ariz.)—had acted improperly by accepting contributions from Keating while interfering in a Federal Home Loan Bank Board investigation of Lincoln Savings.

Last February, after months of public hearings, the committee dropped its investigation of the other four senators. DeConcini and Riegle were severely chastised; Glenn and McCain received only mild criticism.

But Cranston's behavior was viewed as much more egregious by the committee members. They emphasized in their final report that they would have recommended censure for the California senator had he not already announced plans to retire at the end of 1992 and had he not been under treatment for prostate cancer.

During months of behind-the-scenes negotiations with the committee, Cranston even authorized his physician to detail his condition for Heflin and Rudman in an effort to persuade them to drop the case. "May none of you ever have to battle cancer and something like this at the same time in your lives," he told the Senate.

But Cranston used an even more powerful bargaining chip in months of talks with the committee. In his floor speech, he confirmed previous reports that he had threatened to implicate other senators in wrongdoing if the panel sought to censure him.

"I was prepared, on the advice of Prof. Dershowitz, to demonstrate to the Senate and to the nation, through example after example of comparable conduct, that my behavior did not violate established norms," he said.

The committee's solution to the dilemma Cranston's threats created was unprecedented. Never before in Senate history had a member been merely reprimanded in such a trial-like atmosphere. In the past, they have either been reprimanded in a statement issued by the committee or forced to stand trial in the Senate with a verdict rendered by vote at the end of the proceeding.

Although the six-member committee had long been deadlocked, 3 to 3, on the question of whether Cranston should be censured by the full Senate, there was no equivocation in their findings. In essence, the panel found that he and his staff engaged in a persistent pattern of behavior in which they viewed Keating's contributions as reason to assist the flamboyant thrift executive in fighting a federal bank board investigation of Lincoln Savings.

In all, Cranston solicited nearly \$1 million in contributions from Keating for his 1984 presidential campaign, his 1986 reelection campaign, the California Democratic Party and several voter registration groups founded by Cranston. By the committee's count, he also contacted federal officials 13 times on Lincoln's behalf.

"... Sen. Cranston's conduct was improper and repugnant," the findings said. "... Sen. Cranston's

improper conduct deserves the fullest, strongest and most severe sanction which the committee has the authority to impose. Therefore, the Senate Select Committee on Ethics, on behalf of and in the name of the United States Senate, does hereby strongly and severely reprimand Sen. Alan Cranston."

None of Cranston's actions—taken separately—was improper, Heflin said. Furthermore, he said, the panel found no evidence that Cranston's misconduct was intentional or that Cranston personally

benefited from any of the money he solicited from Keating.

Instead, Heflin said, Cranston was found guilty of violating a subjective standard known to all members. "Members of the committee unanimously concluded that commonly understood and well-established norms of behavior in the Senate do not permit linkage between official actions and fund raising," he said.

Although there was no evidence that Cranston ever promised to do a favor for Keating in response to a

contribution, Heflin said, the two were clearly linked. Paraphrasing former Supreme Court Justice Potter Stewart's oft-quoted remarks about obscenity—"I know it when I see it"—Heflin said "linkage" could not easily be defined, but senators knew it when they saw it.

Heflin said the worst example of such linkage occurred in November, 1987, when Keating lobbyist James Grogan delivered \$250,000 in checks for voter registration to Cranston at his office in the Capitol, and the senator—in a tele-

phone call to Keating while Grogan was still present—agreed to ask Federal Home Loan Bank Board Chairman M. Danny Wall to meet with the Lincoln owner.

But Cranston asserted that the mere juxtaposition of solicitations of Keating and his intervention with federal regulators was no sufficient proof of linkage.

"There was no quid pro quo," Dershowitz said after the Senate debate, during which he was prohibited by the rules from speaking. "We can prove that other senators engaged in similar linkage but simply did a better job of covering up their tracks."

Dershowitz also asserted that it

was the first time in history that the Senate had ever reprimanded any member for the appearance of impropriety instead of an actual infraction. He said the committee's allegations would never have stood up in a court of law.

Cranston, who has long had a reputation as perhaps the best fund-raiser in the Senate, argued that there are no established norms in the Senate prohibiting what he did.

"There is no precedent and there is no rule establishing that it is unethical for a senator to engage in legitimate constituent service on behalf of a constituent because it

Please see **CRANSTON, A28**

THE REPRIMAND OF ALAN CRANSTON

CRANSTON: Ethics Rebuke Issued

Continued from A27

was close in time to a lawful contribution to the senator's campaign or to a charity that the senator supports," he said.

In addition, he said that by accepting the committee's findings, the Senate was setting a new standard that would ensnare many other senators in the future. He noted that all senators give greater access to big contributors than to small ones and said:

"Let me ask: Since I have been singled out for a reprimand on access today, who among you can be sure you will not be singled out for a reprimand on access tomorrow? Here, but for the grace of God, stand you."

At the same time, Cranston expressed some regret for the actions that had marred his final year in the Senate.

"I'm not proud of this moment," he said. "I deeply regret the pain all this has caused my family, my friends, my supporters and my constituents . . . In retrospect, I grant that I should not have solicited and received—even though it was on behalf of others—charitable donations close in time to official actions . . . For that I apologize."

Cranston said he intervened on Lincoln's behalf not because of contributions but because of his concern for employees and depositors of the Irvine-based thrift and because such notable economists as now-Federal Reserve Board Chairman Alan Greenspan had vouched for the thrift's financial soundness. He said his contacts did not cause Lincoln's failure.

The senators initially investigated by the committee in the Keating case began contacting bank board officials as early as 1987, when the agency was first looking into evidence of fraud and mismanagement at the institution. But the thrift was not seized by federal regulators until April, 1989, after it had piled up more than \$2 billion in taxpayer-insured losses.

Cranston also made a pitch for campaign finance reform, public financing of elections and abolition of the Senate Ethics Committee. He endorsed a proposal to establish a panel of former senators, former judges and others to sit in judgment in Senate ethics cases.

He noted that the committee's

deliberations had taken place in a politically charged atmosphere, which was exacerbated by the criticism received by the Senate for its handling of the nomination of Thomas to the high court. In fact, that criticism persuaded the committee to find a compromise in the Cranston case.

Although many fellow Democrats swarmed around Cranston to shake his hand after the Senate session, none of them objected to the reprimand. And Rudman clearly struck a chord with Democrats and Republicans alike when he defended the reputation of the Senate against the allegations that Cranston had leveled against unnamed senators.

"Members of this body attempt

'I'm not proud of this moment. I deeply regret the pain all this has caused my family, my friends, my supporters and my constituents.'

ALAN CRANSTON

by word and deed to take great care with their personal conduct as it might be perceived by the American people," Rudman said.

In explaining the case against Cranston, Rudman and Heflin cited these instances—among others—to demonstrate what they viewed as a pattern of improper conduct:

—On Jan. 2, 1987, Joy Jacobson, Cranston's chief fund-raiser, wrote a memo to the senator in which she listed Keating among several big contributors who had matters pending before the federal government and—in her words—"will rightfully expect" some help from Cranston. Such a direct connection between money and assistance is unusual in the Senate, Rudman said.

"While I know of cases where political supporters expect help, I

have never heard a senator or a person working for a senator express the view that there is any legitimacy to such an expectation," Rudman said.

—In July or August, 1987, Cranston called Wall to urge prompt action in the Lincoln investigation. Later, after Wall rejected a proposal to seize Lincoln, Jacobson wrote to Cranston saying that the decision was "obviously good news to Keating" and adding: "You should ask Keating for \$250,000."

—On Jan. 8, 1988, Cranston and his son, Kim, had dinner with Keating at a restaurant in Los Angeles and discussed Keating's problems with the government and Cranston's fund raising for voter registration. Keating, who is now on trial in Los Angeles, then asked Cranston to set up a meeting with Wall, after which Cranston and his son received \$500,000 for voter registration.

Despite Cranston's bravado on the Senate floor, he acknowledged that he had suffered personal anguish as a result of the case. He also noted that, even though Dershowitz was representing him without charge, he owed nearly \$1 million in legal fees to the lawyer who had represented him earlier in the case.

Finally, Cranston asked for forgiveness from the people of California.

"Surely, I have not done everything right," he said. "But I hope that, when my public life is weighed in the balance, it will not be found wanting."

(Mount Clipping in Space Below)

Senate Stunned as Regret Gives Way to Rebuttal

By RUDY ABRAMSON
TIMES STAFF WRITER

WASHINGTON—It was not exactly a plea bargain gone awry, but it was close.

Sen. Alan Cranston had advised the Senate Ethics Committee in advance and in writing that he would accept its reprimand and, when he arose on the floor just after 3 p.m. Wednesday, his first words were indeed of remorse.

He was not proud of the moment, he said. He regretted the pain that "all this" had caused his family, friends, supporters and constituents. He began to speak without his

■ HEARING EXCERPTS: A24-26

lapel microphone. When he started over, he read carefully from his prepared text, using a lectern placed on his customary desk in the center of the ornate Senate chamber.

And it was undoubtedly the low point of Cranston's career as a public man, having heard himself excoriated by an Ethics Committee resolution finding that his conduct in his dealings with Charles H.

Please see **REBUTTAL**, A32

(Indicate page, name of newspaper, city and state.)

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REBUTTAL: Bitter Speech Stuns Senate

Continued from A1

Keating Jr. and Lincoln Savings & Loan had "violated established norms of behavior in the Senate."

But, after he put aside his first page, Cranston launched into a bitter rebuttal of the committee that stunned fellow senators, who were already uncomfortable at being part of the spectacle and had expected him to accept the reprimand without a counterattack.

Some thumbed through the fat committee report. Some stared deep into the chamber's plush blue carpet. A few ducked out for air.

The former Democratic whip not only fired back at the committee, but also pointedly accused unnamed colleagues of doing the same thing he admitted having done—allowing the appearance of linking political favors to campaign contributions.

It was the kind of thing that gives gooseflesh to politicians from county road boards to the White House: public talk about the gossamer threads that entangle money and political access.

He had "abundant evidence," he said, "to demonstrate to the Senate and to the nation, through example after example of comparable conduct, that my behavior did not violate established norms."

He would not name names but he warned that others could also be vulnerable to being singled out, as he said he had been.

"How many of you," he asked, "could stand up and declare you've never, ever decided to see or take a call from someone whose name you recognize, be it a friend, a prominent leader in your state or in the nation, a volunteer in your campaigns or a contributor, while asking your staff to tend to someone you don't recognize?"

"I doubt that any of you could do so.

"Furthermore, you and I know that the Democratic Senatorial Campaign Committee, the Republican Senatorial Campaign Committee and the White House stage events where lobbyists and other individuals paying \$10,000, \$15,000, \$20,000, or even \$100,000 a year can mingle with the President, the

Vice President, Cabinet members and senators. The more they contribute, the more exclusive and intimate the event. That's access."

After his angry finger-pointing, Cranston characteristically struck out for high ground with a call for reform, namely public financing of political campaigns. And he indirectly appealed for sympathy, twice noting that he is suffering from cancer.

It was a visibly difficult moment for one of the barons of Senate Democrats, a man who, throughout 22 years in Washington, has been most comfortable dealing with matters of arms control, the environment and human rights.

It could have been worse. His agreement to accept the harsh judgment spared him the pain of having the full Senate vote to approve the findings and the ultimate humiliation of standing before them to be ceremonially reprimanded.

And while Cranston completed his case, still bristling at being singled out, committee members suggested that, to the contrary, he had been given special consideration.

"Members of the committee considered the state of Sen. Cranston's health and the fact that he will not seek reelection to the Senate in reaching a conclusion as to the appropriate sanction in this case," Ethics Committee Chairman Howell Heflin (D-Ala.) said. "For some members of the committee, his age was also considered, as well as his remarkable record of service to this nation over the last 23 years."

In the end, the sympathy for Cranston was mixed with seething anger for his assault on the findings that he had promised to accept.

Furious Sen. Warren B. Rudman (R-N.H.) followed his denunciation of Cranston's performance as "arrogant," "unrepentant," and "unworthy," with a vow to present senators with further information to back up the committee's conclusion. And there were Republican murmurings that the decision to let the California

senator off without a vote by the full Senate should be reconsidered.

But after Rudman's final blast, Heflin was asked from the chair "whether this does complete the investigation of Sen. Cranston."

Heflin replied with finality: "Yes, it does."

The long slide of the powerful California Democrat had bottomed out, nearly five years after Cranston first contacted the Federal Home Loan Bank Board on behalf of Lincoln Savings. As Cranston gathered the papers around his desk, several Democrats—Dennis DeConcini of Arizona, Claiborne Pell of Rhode Island, Max Baucus of Montana, Daniel K. Inouye of Hawaii, Joseph R. Biden Jr. of Delaware and Daniel Patrick Moynihan of New York—stopped by to shake his hand. Among them was one Republican—Alan K. Simpson of Wyoming.

As those senators joined the rest of the Senate heading out side exits of the chamber, Cranston walked out a back exit with his press secretary, Murray Flander, and his lawyer, Harvard professor Alan M. Dershowitz.

Bus Driver, Dying at the Wheel, Keeps Safety Record Alive

SPRINGFIELD, Mo.—A bus driver who had logged more than 2 million accident-free miles managed to pull his bus into an interstate rest area before dying of a heart attack, his supervisor said.

Jim Sneed, 59, of Springfield, was driving a Greyhound bus with 44 passengers on board Sunday on Interstate 44 near Claremore, Okla., when he experienced chest pains. A retired bus driver who was on the bus volunteered to drive it and take Sneed to the nearest hospital, said Alan Smith, driver supervisor for Greyhound-Trailways Bus Lines in St. Louis.

"He told him, 'No, I've got to get it off the highway myself,'" Smith said.

—Associated Press

Excerpts: Senators Find His 'Conduct Was Improper, Repugnant'

WASHINGTON—Here are excerpts from the Senate Ethics Committee resolution reprimanding Sen. Alan Cranston (D-Calif.) for his dealings with Lincoln Savings & Loan owner Charles H. Keating Jr., and from statements made on the Senate floor:

COMMITTEE RESOLUTION: . . . The committee finds that Sen. Alan Cranston, personally or through Senate staff, made . . . contacts with federal officials regarding Lincoln Savings & Loan, a subsidiary of American Continental Corp., a company associated with Charles H. Keating Jr. . . .

The committee also finds that Sen. Cranston had substantial constituent interest in intervening with federal officials on behalf of Lincoln, including the facts that Lincoln employed hundreds of California residents and that thousands of California residents were Lincoln depositors and bond holders. The committee also finds that Sen. Cranston had information which reasonably caused concern about the regulation of Lincoln, including a letter from Jack D. Atchison with the accounting firm of Arthur Young and a report from Alan J. Greenspan relating to Lincoln.

Activities Not Illegal

The committee further finds that, when considered in and of themselves and without regard to any contribution or other benefit, none of Sen. Cranston's aforementioned activities concerning Lincoln were illegal or improper and violated no law or Senate rule.

Based on the available evidence, the committee concludes that contributions to Sen. Cranston's presidential and Senate campaigns from Mr. Keating and his associates under the Federal Election Campaign Act were within the established legal limits, and were properly reported.

The committee also concludes . . . that Sen. Cranston's solicitation or acceptance of contributions to state party organizations, political action committees, and voter registration organizations were, in and of themselves, not illegal or improper; nor did any such contribution constitute a personal gift to Sen. Cranston. . . .

The committee finds that, in and of themselves, none of the foregoing actions of Sen. Cranston violated any law or Senate rule.

The committee further finds by clear and convincing evidence that, based upon the totality of the circumstances, Sen. Cranston engaged in an impermissible pattern of conduct in which fund-raising and official activities were substantially linked in connection with Mr. Keating and Lincoln. . . .

Be it further resolved that the committee finds that:

—From early 1987 through April, 1989, Sen. Cranston personally or through Senate staff contacted the Federal Home Loan Bank Board on behalf of Lincoln during a period when Sen. Cranston, on behalf of organizations in whose success he had a deep concern, was soliciting and accepting substantial contributions from Mr. Keating. . . .

—Sen. Cranston's Senate office practices further evidenced an impermissible pattern of conduct in which fund-raising and official activities were substantially linked.

It is further resolved:

Key Events in the Keating Five Case



Sen. Alan Cranston



Sen. Dennis DeConcini



Sen. John Glenn



Sen. John McCain



Sen. Donald W. Riegle Jr.

Here are some of the key events in the saga of the so-called Keating Five senators and their involvement with Lincoln Savings & Loan and its owner, Charles H. Keating Jr.:

■ **March 12, 1986:** The Federal Home Loan Bank in San Francisco begins an examination into Lincoln's rapid growth and investment activity.

■ **April 9, 1987:** Sens. Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.), who received large political contributions from Keating, meet with the San Francisco bank examiners.

■ **April 14, 1989:** The government takes control of Lincoln at an eventual cost to the taxpayers of \$2.6 billion.



Charles H. Keating Jr.

■ **Sept. 18, 1990:** Keating is indicted on state charges for securities fraud.

■ **Nov. 15, 1990:** The Senate Ethics Committee opens hearings into the Keating Five.

■ **Feb. 27, 1991:** The Ethics Committee finds "substantial credible evidence" of misconduct by Cranston. It says Riegle and DeConcini gave the appearance of impropriety but recommends no further action against them. Glenn and McCain are criticized less severely. The panel wrestles with what action should be taken against Cranston.

■ **Aug. 2, 1991:** Keating's trial begins in Los Angeles County.

■ **Aug. 5, 1991:** Sen. Jesse Helms (R-N.C.), a member of the Ethics Committee, issues a report of his own, saying Cranston should be censured for "reprehensible conduct."

■ **Nov. 18, 1991:** The jury in Los Angeles begins deliberating the Keating case.

■ **Nov. 20, 1991:** The Ethics Committee reprimands Cranston, who goes before the full Senate and says he will accept the panel's verdict.

—That Sen. Cranston's impermissible pattern of conduct violated established norms of behavior in the Senate, and was improper conduct that reflects upon the Senate. . . .

—That Sen. Cranston's conduct was improper and repugnant.

—In reviewing the evidence available to it, the committee finds that Sen. Cranston violated no law or specific Senate rule, acted without corrupt intent, and did not receive nor intend to receive personal financial benefit from any of the funds raised through Mr. Keating.

—Further, the committee finds that extenuating circumstances exist including . . . that Sen. Cranston is in poor health and that Sen. Cranston has announced his intention not to seek reelection to the Senate.

—Sen. Cranston's improper conduct deserves the fullest, strongest and most severe sanction which the committee has the authority to impose.

Therefore, the Senate Select Committee on Ethics, on behalf of and in the name of the United States Senate, does hereby strongly and severely reprimand Sen. Alan Cranston.

SEN. HOWELL HEFLIN (D-Ala.): In connection with his dealings with Charles Keating and Lincoln Savings & Loan, a failed California S&L, Sen. Cranston has been "strongly and severely reprimanded" by the Ethics Committee for improper conduct which reflects upon the Senate. The reprimand did not come because Sen. Cranston violated any law, nor because he violated any specific Senate rule. The committee has found that he violated neither. Rather, the reprimand came as a result of "a pattern of conduct in which fund-raising and official activities were substantially linked."

I want to focus for a moment on the committee's finding that there was substantial linkage between Sen. Cranston's fund-raising and his official duties, as it related to Mr. Keating and Lincoln Savings & Loan. At least two aspects of the committee's reprimand deserve discussion.

First, a threshold matter. If, in all of his actions, Sen. Cranston violated no law and violated no specific Senate rule, why is he, nevertheless, being reprimanded by the Ethics Committee? As amended, Senate Resolution 38 of the 88th Congress authorizes the

Ethics Committee to receive complaints and investigate allegations of violations of law, violations of the Senate Code of Official Conduct, violations of rules and regulations of the Senate, and "improper conduct that reflects upon the Senate," and to make appropriate findings of fact and conclusions with respect thereto.

The path to judgment is easy when a specific law or rule has been violated. But for those who believe in the "Rule of Law," violations of unwritten ethical standards are far more difficult to resolve. Although a finding of "improper conduct that reflects upon the Senate" is subjective in nature, it must ultimately rest upon a violation of an existing and well-understood norm of behavior. Before making such a finding, Senate practices and customs and their interrelationships must be carefully evaluated. . . .

As in all cases of this nature, the committee's decision in Sen. Cranston's case was based upon the totality of the circumstances, and it was from this totality that the committee determined that Sen. Cranston engaged in an impermissible pattern of conduct in which fund-raising and official activities were substantially linked.

The pattern which the committee found so disturbing was unequivocally manifest through a series of activities and occurrences involving Sen. Cranston over a period of at least two years. Some of the actions which created the linkage were taken by Sen. Cranston personally, some by his staff, who often acted with his knowledge or permission and often under his direction or supervision.

Some Troubling Occurrences

Some of the occurrences which led the committee to conclude that "substantial linkage" existed between Sen. Cranston's fund-raising and his official activities were included in the committee's resolution, and I will not repeat them all. On their face, some acts or occurrences were obviously more troubling than others.

One notable example is the incident in November, 1987, where delivery of \$250,000 in contributions from Charles Keating for voter registration groups took place at the same meeting in the Capitol where the senator agreed to contact a regulator on Keating's behalf. The committee has not found that the events were causally connected, but the incident does indicate linkage. . . .

Members of the committee considered the state of Sen. Cranston's health, and the fact that he will not seek reelection to the Senate, in reaching a conclusion as to the appropriate sanction in this case. For some members of the committee, his age was also considered, as well as his remarkable record of service to this nation over the last 23 years.

Having taken these extenuating circumstances into account, the committee determined that it was appropriate to issue the most severe sanction which could be imposed by the committee. . . .

SEN. WARREN B. RUDMAN (R-N.H.): At the outset, Mr. President, I would like to discuss what this case is not about. It is not about the merits or wisdom of Sen. Cranston's intervention on behalf of Lincoln.

Please see EXCERPTS, A25

EXCERPTS: Linkage Between Fund-Raising, S&L Aid Found

Continued from A24

Savings & Loan Assn. The merits of a policy pursued by a senator is between the senator, his constituents and the American people. It is not a matter for the Ethics Committee.

The case before the committee was also not about the merits of the existing system for financing congressional campaigns. . . . This case is not about the propriety of assisting a person who happens to have been a campaign contributor or a political supporter. It is a routine, proper and necessary function of a United States senator to make inquiries of agencies on behalf of individuals and to intervene when the senator believes that justice or equity requires. . . .

The question then facing us was as follows: Is there a further standard of conduct governing a senator's action on behalf of individuals, and did Sen. Cranston act improperly by violating that standard?

The cardinal principle governing senators relevant to today's action is that a senator must make decisions on whether to intervene on behalf of an individual without regard to whether such individual has contributed or promised to contribute. In other words, official actions and contributions cannot be linked. In this case . . . the committee found that, quote, "Sen. Cranston engaged in an impermissible pattern of conduct in which fund-raising and official actions were substantially linked."

Behavior Deviated From Norms

The committee did not reach this decision lightly. There was more to the linkage than simply coincidental timing between Sen. Cranston's actions and those contributions. Moreover . . . Sen. Cranston is not being unfairly singled out for engaging in conduct routinely practiced by other members of this body. His behavior significantly deviated from the norms governing this body and from principles senators are expected to, and in my 11 years do, in fact, adhere to.

I would now like to turn to some of the major events that caused the committee to reach its conclusion.

First, on Jan. 2, 1987, Joy Jacobson, Sen. Cranston's chief fund-raiser, wrote him a memo stating, and I quote, "Cases/legislation. Now that we are back in the majority, there are a number of individuals who have been very helpful to you, who have cases or legislative matters pending with our office who will rightfully expect some kind of resolution." With respect to Mr. Keating, the memo states, "Is continuing to have problems with the Bank Board and Ed Gray. Jim Grogan and the company's chief legal counsel, Bob Kieley, are coming to see you on Friday at 1 p.m. to get your advice on how to handle the current problems."

The most disturbing example of linkage, I believe, to the committee came later that year. In July or August of 1987, Sen. Cranston called M. Danny Wall, the new chairman of the Federal Home Loan Bank Board, to urge that a prompt decision be made in the Lincoln examination. Chairman Wall testified that the senator did not state what the resolution ought to be. In early September, Chairman Wall agreed to postpone a

scheduled field visit by the regulators to Lincoln and consider the matter at the Washington headquarters.

On Sept. 6, Jacobson wrote a memo to Sen. Cranston. A press clipping about Chairman Wall's decision was attached. And the memo stated that his views are, quote, "obviously good news to Keating." She added, quote, "You should ask Keating for \$250,000." . . . On Sept. 24, Mr. Keating met with Chairman Wall in the morning and Mr. Cranston later in the day. As a letter Sen. Cranston wrote two weeks later shows, he and Mr. Keating discussed the morning meeting, Sen. Cranston requested and received a commitment for a \$250,000 contribution for the voter registration organizations he supported.

Checks Delivered

On Nov. 6, Mr. Grogan personally delivered \$250,000 in checks to Sen. Cranston. . . .

It is important to note, however, in fairness to Sen. Cranston, that Mr. Grogan, who was testifying under grant of immunity and therefore had every reason to be truthful, flatly and persuasively denied the existence of any indication of a quid pro quo, a necessary element to establish bribery. . . .

These four incidents, in and of themselves, demonstrate that Sen. Cranston impermissibly linked through time and other circumstances contributions and official actions. That is a pattern of improper conduct which must be sanctioned by this institution, and it's why we're here on the floor of the Senate today.

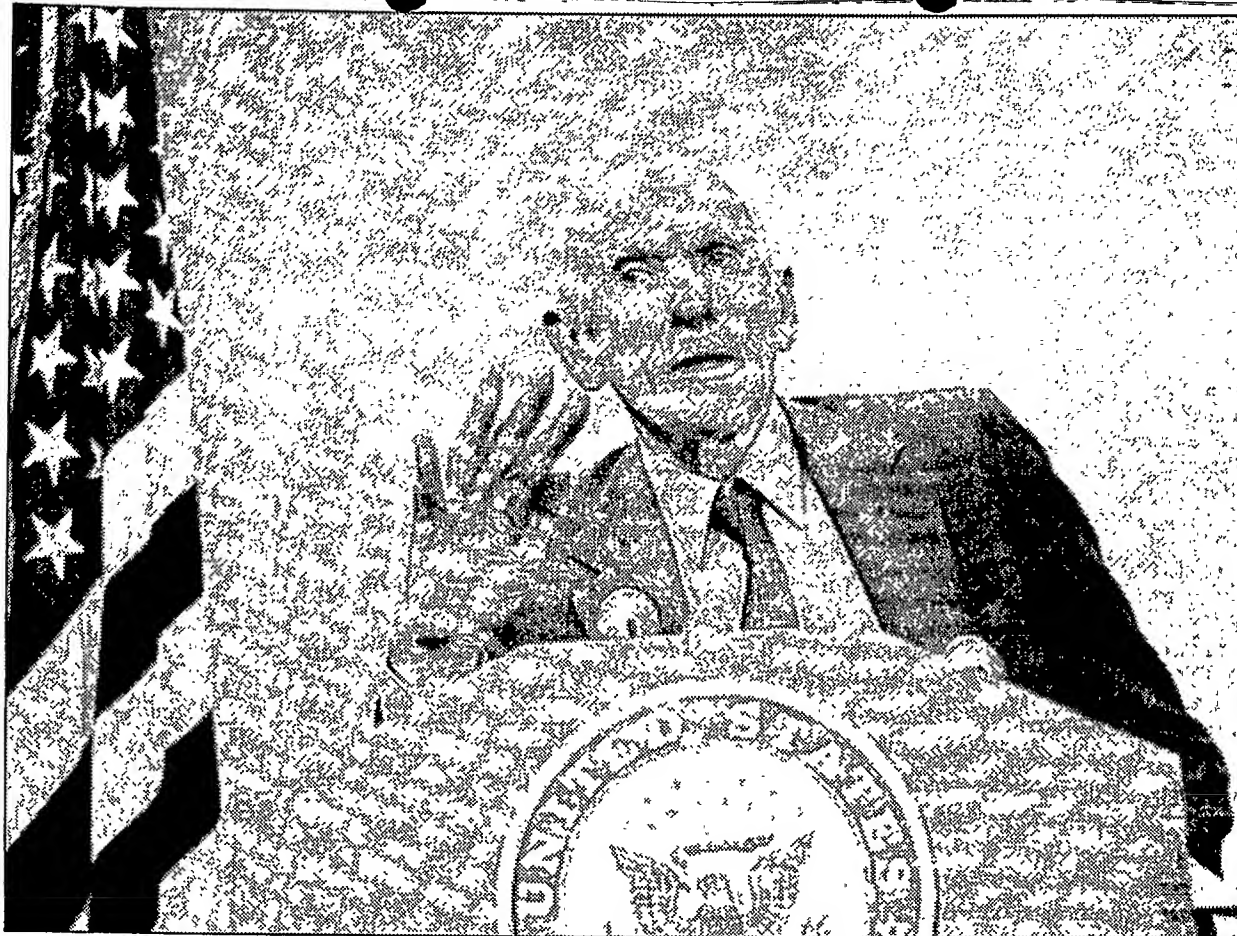
My colleagues will note that I have not addressed either the merits of Sen. Cranston's actions, nor their effect on the Federal Home Loan Bank Board. The

'These four incidents, in and of themselves, demonstrate that Sen. Cranston impermissibly linked through time and other circumstances contributions and official actions. That is a pattern of improper conduct which must be sanctioned by this institution, and it's why we're here on the floor of the Senate today. . . . Mr. President, the committee unanimously agreed that Sen. Cranston's conduct was improper and required an institutional response.'

SEN. WARREN B. RUDMAN (R-N.H.)

reason is that the wisdom and effectiveness of a senator's intervention on behalf of an individual is irrelevant as to whether that intervention was improperly linked to contributions. . . .

Mr. President, the committee unanimously agreed that Sen. Cranston's conduct was improper and required an institutional response. Some members of



BERNIE BOSTON / Los Angeles Times

Sen. Alan Cranston takes question at a news conference after receiving reprimand from the Senate.

the committee, including this senator, believe that Sen. Cranston's conduct merited action by the full Senate. The question then arose as to what response the Senate should take. The committee's debate over the last two months was not over whether to take action, but over what action to take. There are, indeed, mitigating factors, most notably the lack of any personal benefit and of any significant direct benefit to Sen. Cranston's campaigns for the Senate or for the presidency.

I personally believe that the \$49,000 contributed to those campaigns were not the major motivation for his actions. It was the \$850,000 contributed to the voter registration groups, groups in which Sen. Cranston had a profound and appropriate interest. He received no personal benefits from these groups, and the political benefits were tangential at best. Moreover, regrettably, Sen. Cranston is seriously ill, and he has announced that he is not running for reelection. . . .

SEN. CRANSTON: I rise with deep remorse in my heart to accept the reprimand of the committee.

I deeply regret the pain all this has caused my family, my friends, my supporters and my constituents.

I'm proud of my 23-year record in the Senate. . . . I'm not proud of this moment.

My intentions were proper in all I did—as were the intentions of the other four senators who were involved. . . . The committee acknowledges that.

But, in retrospect, I grant that I should not have solicited and received—even though it was on behalf of others—charitable donations close in time to official actions. . . .

So, yes, I accept the committee's reprimand. . . .

First, I ask each of you—I ask everyone—to note that the committee found and acknowledged:

—That nothing I did violated any law or specific Senate rule.

—That I acted without corrupt intent.

—That none of the contributions constituted a personal gift to me, and that I did not receive or intend to receive any personal benefit from any of the funds I raised.

The committee found and acknowledged:

—That all my actions regarding Lincoln Savings & Loan were legal and proper and violated no law or Senate rule.

—That the money I raised was legal, proper and properly reported. . . .

Thus it is clear that I have not been reprimanded for doing anything improper for Mr. Keating. I have been reprimanded because there was, or appeared to be, a proximity in time between legitimate charitable donations I accepted—for bona fide charities—and legitimate official actions I took. . . .

In retrospect, nonetheless, I now realize that it looked improper.

But I differ and I differ deeply with the committee's statement in the resolution that my conduct "violated established norms of behavior in the Senate."

If I had chosen to fight, I would have challenged that statement even more forcefully than I now will.

There are no such established norms of behavior in the Senate.

There is no precedent and there is no rule establishing that it is unethical for a senator to engage in legitimate constituent service on behalf of a constituent because it was close in time to a lawful

Please see EXCERPTS, A26-

EXCERPTS: Cranston Given Panel's Severe Reprimand

Continued from A25

contribution to the senator's campaign or to a charity that the senator supports. . . .

I tell you all this, my colleagues, for several reasons.

A Warning to Senators

First, to demonstrate that I did not violate any established norm of Senate behavior.

Second, to warn every one of you who plays any part, direct or indirect, in fund-raising for a charity that you are in jeopardy if you ever do anything at any time to help a contributor to that charity—no matter how worthy the cause, no matter how proper the need for help, and no matter how proper the help you render. I stand before you as an illustration of that jeopardy.

Third, to suggest that reform is needed to protect yourselves and the Senate. I doubt that anything less will do than a ban on charitable

fund-raising by senators or in their names. If you engage in such fund-raising, sooner or later some of those who help you will want your help. If they have a legitimate need you'll be hard put to refuse their request simply because they responded to yours. And then you're headed for trouble. On the other hand, how can you not help them? . . .

I ask you this: How can you rationally refuse to give legal and proper help at any time to someone who seems to have a reasonable grievance because he or she has contributed to your campaign?

Can you only help people who haven't contributed?

Or can you only help people who haven't contributed lately?

How lately?

And must you refrain from helping people who might contribute in the future?

How far in the future? . . .

Get Money Out of Politics

I believe the only remedy is to get money out of politics. Therein lies salvation for you, for the Senate, and most of all for the American people who are the ultimate losers until we end the role money plays or seems to play in our decision-making, and end the business of senators and would-be senators having to spend more and more of their time chasing the money needed to fund a successful campaign. . . .

I differ with the suggestion that the way I handle so-called "access" differs from the established norm in the Senate.

How many of you could stand up and declare you've never, ever decided to see or take a call from someone whose name you recognize, be it a friend, a prominent leader in your state or in the nation, a volunteer in your campaigns, or a contributor, while asking your staff to tend to someone you don't recognize?

I doubt that any of you could do so. . . .

So let me ask: Since I have been singled out for a reprimand on access today, who among you can be sure you will not be singled out for a reprimand on access tomorrow?

Here, but for the grace of God, stand you. . . .

It's been suggested that the committee should be revamped so that its members would consist not of sitting senators but instead of former senators, former judges and outstanding laymen. I endorse that concept, until and unless something wiser is proposed. . . .

For those of you who may feel that I should pay for my conduct, let me assure you that I have paid.

In terms of dollars, legal fees for myself and others for whom I feel a sense of responsibility approach \$1 million. . . .

I am also more grateful than I can say to the people of California, who have so often honored

me with their votes, and who have always let me fight for my beliefs even when they weren't sure they agreed. . . .

These two years have taken much from me. The greatest cost is the anguish and uncertainty felt by my family and others who have stood with us.

May none of you ever have to battle cancer and something like this at the same time in your lives.

SEN. RUDMAN: I must say regretfully that after accepting this committee's recommendation, what I have heard is a statement that I can only describe as arrogant, unrepentant and a smear on this institution. Everybody doesn't do it. . . .

Everybody Doesn't Do It

The linkage that this committee rested its case upon is not based only upon time. The report talks about linkage of money, time and other circumstances not present in any of the other four cases before us. Secondly, it is true that many members of this institution care deeply about charities for the public good and they in fact do raise money for those charities and many have come to the committee for advice on how they should proceed. Everybody doesn't do it. . . .

I have found that to be the one unifying thread in this body, and for the senator from California to rise and give a speech on this floor after accepting this admonition, this serious reprimand, a reprimand because of circumstances he knows full well, rather than a vote, which I would have preferred, and blame it on campaign financing, everybody does it, and you should all be in fear of your lives and the Ethics Committee, is poppycock. . . .